

**FINAL REPORT OF THE**  
**HISTORIC PRESERVATION SUBCOMMITTEE OF THE**  
**MISSOURI TAX CREDIT REVIEW COMMISSION**

October 29, 2010

Subcommittee Members:

Chairman Zack Boyers

Senator Matt Bartle	Bill Bayer
Karen Bode Baxter	Rodney Crim
Robert Espeland	Eric Friedman
Peter George	Luana Gifford
Steve Kramer	Joe Maestes
Peter Noonan	Tom Reeves
Jerry Schlichter	Elizabeth Rosen
Greg Smith	Debra Sheals
Ray Wagner	Wendy Timm
Mike Wood	Shannon Weber

## **I. Introduction**

During its September 8, 2010 meeting, the Missouri Tax Credit Review Commission (the “Commission”) approved the establishment of the Historic Preservation subcommittee (the “Subcommittee”). The Subcommittee was established to meet and formulate recommendations to the Commission and to offer a mechanism to ensure that the Historic Preservation Tax Credit Program, codified under Section 253.545 *et seq.*, RSMo. (the “Program”), receives a thorough review. This final report (this “Report”) is the culmination of several weeks of public meetings and extensive consideration of the merits and criticisms of the Program.

The members of the Subcommittee include both Commission members and Commission non-members, and represent a cross-section of private and public stakeholders, including developers, lenders, consultants, attorneys, state and local public representatives, and civic leaders. Members of the Subcommittee include those who actively participate in the historic rehabilitation process and those who do not. The Subcommittee especially appreciates those members of the public who attended and participated in its meetings, and would like to acknowledge the commitment of time and energy of all its members. The Subcommittee would also like to express its appreciation to Dr. Sarah Coffin, Ms. Sallie Hemenway and Mr. Alan Spell for their contributions to the Subcommittee’s work.

## **II. Public Meetings**

To meet its obligations to the Commission, the Subcommittee convened a series of public meetings in which it solicited a wide variety of information related to the Program. All meetings of the Subcommittee were held in accord with the Missouri Sunshine Law and were open to the public. Minutes for all of the Subcommittee meetings are available to the public and contain more detailed summaries of the topics discussed and considered by the Subcommittee.

At the meeting held on September 20, 2010, the Subcommittee began its review of the Program by discussing a summary document drafted by Peter Noonan after informal dialogue with other Subcommittee members identifying changes which may improve operational effectiveness of the Program (the “Efficiency Recommendations”). The Subcommittee has included many of these Efficiency Recommendations in this Report (see below).

At the meeting held on October 1, 2010, the Subcommittee heard a presentation by Sarah Coffin, Ph.D., St. Louis University. Dr. Coffin presented her study entitled “An Evaluation of Missouri’s Historic Preservation Tax Credit Program on Job Creation and Economic Activity.” A copy of Dr. Coffin’s presentation materials is enclosed with this Report.

At the meeting held on October 7, 2010, Sallie Hemenway, Director of Business & Community Services, and Alan Spell, Deputy Chief Economist, represented the Missouri Department of Economic Development (“DED”) and provided an overview of the REMI Missouri Economic Model of Economic Impact. The presentation including a review of the methodology used in the REMI model, its data output quantifying economic impact to the state and an example of how the model uses available data. A copy of Ms. Hemenway and Mr. Spell’s presentation materials is enclosed with this Report.

At the meeting held on October 14, 2010, the Subcommittee spent a significant amount of time surveying the tax credit programs of other states and discussing the data analyzing the economic impact of the Program in Missouri. The Subcommittee also generated initial proposed recommendations for changes to the Program, the final results of which are discussed below.

At the meeting held on October 22, 2010, the Subcommittee reviewed its proposed recommendations and voted on several motions related to the particular recommendations to be included in this Report.

At the meeting held on October 28, 2010, the Subcommittee reviewed and finalized this Report. A roll call vote was held to approve this Report and the votes were as follows:

<u>Aye (13)</u>	<u>No (3)</u>	<u>Absent (5)</u>
Chairman Zack Boyers	Senator Matt Bartle	Eric Freidman
Bill Bayer	Ray Wagner	Joe Maestes
Karen Bode Baxter	Mike Wood	Elizabeth Rosen
Rodney Crim		Debra Sheals
Robert Espeland		Shannon Weber
Peter George		
Luana Gifford		
Steve Kramer		
Peter Noonan		
Tom Reeves		
Jerry Schlichter		
Greg Smith		
Wendy Timm		

There being thirteen (13) votes in favor of the motion and three (3) opposed, the motion passed and this Report was adopted as the final report of the Subcommittee.

### **III. Methodology**

Over the course of its meetings, the Subcommittee collected and considered a significant amount of testimony, facts, figures, assertions and reports from economists, national organizations, DED, members of the development community, private and public leaders and the public themselves. The Subcommittee submits this Report in part as a response to the fifteen questions posed by the Co-Chairmen of the Commission in their memorandum to the Commission dated September 16, 2010. The Subcommittee has also chosen to supplement its response to the Commission's questions with specific recommendations to the Commission for proposals to modify the Program.

### **IV. Review of Tax Credit Program**

Since 1976, federal law has provided tax incentives for historic preservation. The Missouri Program was passed in September 1997 by the Missouri General Assembly, and became effective January 1, 1998, for the purpose of providing an incentive for the redevelopment of commercial and residential historic structures in Missouri. DED administers the Program and is responsible for the issuance of all tax credits based upon final certification of

the rehabilitation project by the Missouri Department of Natural Resources, State Historic Preservation Office (“SHPO”).

The Program was initially designed to mirror the federal program and provide state tax credits equal to 25% of eligible costs and expenses of the rehabilitation of approved historic structures. An eligible property must be (i) listed individually on the National Register of Historic Places, or (ii) certified by the Missouri Department of Natural Resources as contributing to the historical significance of (a) a certified historic district listed on the National Register, or (b) a local historic district that has been certified by the US Department of the Interior. Eligible costs include, but are not limited to, qualified rehabilitation expenditures (“QREs”) as defined under the federal program. Generally, improvements made within the “footprint” of the building are eligible if they are permanent. Soft costs directly related to the rehabilitation, such as architect’s fees, are also allowed. To qualify for credits, however, QREs associated with the rehabilitation must exceed 50% of the total basis of the property (i.e. the acquisition cost).

The tax credits issued under the Program can be applied to state income taxes (excluding withholding taxes) under Chapter 143 and to taxes under Chapter 148, including the Bank Tax, the Insurance Premium Tax and the Other Financial Institution Tax. Any taxpayer is eligible to participate in the Program. Not-for-profit entities and government entities are ineligible. Tax credits must be used first in the year they are issued. If there is any excess, they may be carried back to any of the three (3) preceding years and carried forward for the succeeding ten (10) years. Tax credits may also be sold or transferred in accord with Missouri law.

In 2009, the General Assembly passed House Bill 191 (2009) and made significant changes to the Program in an effort to address growing concerns over the fiscal impact of the Program on the state budget. These changes imposed new annual limits on the amount of tax credits approved by DED. As of January 1, 2010, there is an initial program cap of \$70 million for projects receiving tax credits over \$275,000. Effective as of July 1, 2010, the annual cap became \$140 million for projects receiving tax credits over \$275,000. Owner-occupied residential projects have a per-project cap of \$250,000 in tax credits. Any project, other than these owner-occupied residential projects, receiving less than \$275,000 in tax credits are completely exempt from the program caps.

House Bill 191 also established a more detailed, multi-step application and approval process. The process now requires that applicants submit preliminary applications to DED detailing the project, which may be completed in multiple phases, and expected costs. Such preliminary applications are prioritized by DED according to the date of submission. Upon review of the application by SHPO, DED then reviews each application to determine whether all required information is included. If the application is complete, DED will approve the application and notify the applicant in writing of the approval for a specific amount of tax credits. DED provides preliminary approvals according to the priority of applications and only to extent that tax credits are still available for authorization under the annual cap. In the event that all tax credits available under the annual cap are approved by DED in a given year, pending applicants are notified and those applications are kept on file to be considered for approval of tax credits when credits are next made available (either in the next year or sooner if prior approvals are rescinded and those approved credits are again made available for approval). It is worth



noting that this preliminary approval is merely a notice that the project is preliminarily *authorized* to receive tax credits. This is different from the tax credits being *issued* upon final approval, and later *redeemed* with the state. These preliminary approvals of tax credits are the basis for calculating the annual cap for the Program.

Upon preliminary approval of an application for tax credits, applicants must commence rehabilitation not more than two (2) years from the date of approval. When the rehabilitation project is completed and expenses have been paid, a final application is submitted to DED along with expense documentation known as a “cost certification.” After the final application is received by DED, SHPO performs a final review of the technical project work and DED performs an audit of the cost certification. DED also charges a fee of 2.5% of the amount of tax credits issued.

Upon final approval of the project work and expenses, and once the issuance fee is paid to DED, a tax credit certificate for 25% of qualified rehabilitation expenditures is issued and mailed to the applicant by DED in the final year that QREs were incurred or within the twelve (12) month period immediately following conclusion of the project. Currently, applicants may not receive tax credits for rehabilitation expenses incurred prior to receipt of the preliminary project application by DED.

## **V. Discussion of Commission Questions**

The tax credits issued under the Program accomplish a clearly discernable and definable outcome, namely, to encourage the preservation and restoration of Missouri’s historic structures, and to foster economic development through employment and capital investments directly and indirectly involved with the rehabilitation of historic buildings. There is a recognizable cause and effect relationship between the use of tax credits under the Program and the desired outcome of economic development. As Dr. Coffin noted during her presentation, a minimum of 43,150 jobs and approximately \$670 million in state and local sales and income taxes were generated from projects receiving tax credits under the Program from 2000-2008. These numbers are “minimums” because Dr. Coffin’s economic modeling does not accurately reflect the added economic impact on local entrepreneurial enterprises, or the so called “induced” or “indirect” economic effect of the Program.

The economic output of the Program is also currently measured by DED using the REMI Missouri Economic Model of Economic Impact. Each year, DED submits a report to the state quantifying the fiscal return to the state derived from projects receiving tax credits under the Program. In the only example DED provided which specifically addressed a historic rehabilitation project (a copy of which is enclosed), the Drury Hotel project in St. Louis provided a return of \$0.35 to state general revenue for every \$1 of tax credits issued to the project under the Program over 11 years. However, as Ms. Hemenway and Mr. Spell acknowledged in their presentation to the Subcommittee, the REMI model does not present a complete measurement of the economic impact of the Program, as it does not measure any output other than the direct return to the state general revenues over time from the projects receiving tax credits. Some Missouri tax credits are designed specifically to spur business development while others target goals such as historic preservation, housing, or youth programs. The REMI model has difficulty assessing these broader, community-related tax credits since it does not measure any induced

benefits such as increases in local tax collections from property, sales, and income taxes, or the benefits to an area from increased attractiveness of that area to further investment. Further, the REMI model does not capture social benefits that the tax credits may induce, such as lower crime rates related to higher-visibility/higher-use areas. In sum, the economic data available to the state does not satisfactorily measure the total return on investment from the Program, and when considering the economic and social benefits derived from tax credits, the resulting economic development through rehabilitation of historic buildings provides a more than sufficient return on investment to the state of Missouri.

Moreover, the direct and indirect economic development spurred by the Program is relevant and necessary to Missouri's economic and social well-being today and in the future. There is still a significant market for rehabilitation of historic buildings in Missouri. DED figures reflect 1,726 applications for which tax credits were issued from 2000-2009, representing projects from only 37% of the counties in Missouri. Moreover, Dr. Coffin found that approximately 57% of the projects used less than \$100,000 in tax credits. The Program is widely used across a variety of project types, and accordingly does not serve too few people or too narrow an industry. The current economic environment makes it increasingly more difficult to undertake a broad range of rehabilitation projects, and accordingly, the benefits of the Program are more critical than ever in driving this market.

From 2000-2008, Dr. Coffin's study found that at a minimum, projects using historic rehabilitation tax credits created 43,150 new or retained jobs with an average salary of \$42,732. These projects generated \$669,872,192 in new sales/use and income tax revenue to the state and local governments, and leveraged \$2.9 billion in private investment. The projects also generated higher-than-expected rates of annual job growth and higher-than-expected increases in high-paying, sustainable jobs. Such jobs and investment directly benefit Missouri and its citizens. Additionally, the benefits derived from the unmeasured effects of historic rehabilitation projects, such as removal of blight from communities and the increase in surrounding property values, enhance the impact of the Program on the economic and social well-being of the state. In a current economic climate where the state faces high unemployment and depressed real estate markets, these economic and social benefits to the state, while difficult to precisely quantify using the REMI model, cannot be ignored. While not the sole solution to these problems, the Program is a relevant and necessary tool for the state to continue its economic and social development in the future.

The Subcommittee did consider many of the concerns related to the Program which were presented at the meetings. Rather than focus on public policy concerns, these objections centered more on the fiscal impact of the tax credits. Much of the discussion revolved around concerns over the unpredictability of the impact of the Program on the state budget. This unpredictability is often attributed to the extended periods for which tax credits could be carried forward or back from the year of issuance and the size of the annual cap now in place for tax credit authorizations. The annual cap was singled out due to the fact that it limits approvals of tax credits in one year, when the actual redemptions of issued tax credits may significantly impact the state budget in other years due to the delay between preliminary and final approvals and the carryback or carryforward provisions. DED has supplied data from FY 2007-2010 that details the amounts of tax credits authorized, issued and redeemed. In FY 2007, DED authorized

\$128,334,638 worth of tax credits, \$171,508,564 were issued, and taxpayers redeemed \$132,841,728 in tax credits. In FY 2008, DED authorized \$170,058,700 worth of tax credits, issued \$161,621,537, and redeemed \$140,111,002. In FY 2009, DED reached its highest point of authorizations, authorizing \$211,950,941 worth of tax credits. That same year DED issued \$119,914,948 and the state redeemed \$186,426,164. In FY 2010, DED authorized \$99,510,175 worth of tax credits, well below the \$140 million annual cap. There were \$107,229,218 worth of tax credits issued in FY 2010, and the state redeemed only \$108,064,200. DED was unable to provide estimates for FY 2011, but there was consensus that the \$140 million cap on approvals would again not be met and that issuance and redemptions would continue to be lower than in the past.

In addition to the unpredictable impact on the state budget, critics of the Program also point to the discrepancy between the amounts of credits provided in Missouri as compared to other states. Iowa, noted as a state which has a robust historic rehabilitation tax credit program, is limited to only \$45 million in tax credit authorizations per year and increased its cap by \$30 million this year. Massachusetts recently renewed its historic tax credit program with a \$50 million annual cap. Conversely, this year Kansas approved a measure removing the annual cap from its historic tax credit program. Using Missouri's pre-2009 program as its model, Minnesota also recently enacted an uncapped program, which will allow for unlimited authorizations, although since that program began in May 2010 there are no statistics available assessing its efficacy. Similarly, after the 2009 imposition of the annual cap in Missouri, it will take several years before there is enough data to assess the true impact of the annual cap on historic rehabilitation and state revenues.

DED highlighted the Program's limited direct economic impact to state revenues in past years as calculated using the REMI model. There was also discussion of the fact that the Program is an "entitlement" tax credit program. In other words, as currently designed, if an application for tax credits is complete, eligible costs were incurred, and the rehabilitation was completed according to state standards, tax credits will be issued (subject only to availability under the annual cap). DED has no discretion regarding whether to issue tax credits if the application requirements are met. Other tax credit programs in the state require the administering agency to assess whether the tax credits to be issued will, in fact, provide a sufficient return on investment prior to issuance. However, the design of the Program as an "entitlement" is a critical component for its success. Historic rehabilitation developments often take several years to complete. Property must be acquired, projects must be designed and constructed, financing must be secured and tenants must be found. Developers, lenders and tenants must know that at the end of this extended process, if eligibility is properly established, that tax credits will be approved. Numerous development professional spoke to the Subcommittee and offered their experienced opinion that the predictable issuance of tax credits at the end of a clearly defined process is absolutely critical to the continued success of the Program. Should discretion be added to this process, the predictability upon which these projects rely will disappear and the preservation and restoration of Missouri's historic structures will be severely hampered. The Subcommittee acknowledges the variety of criticisms, but the extensive benefits of the Program far outweigh its administrative costs. As Dr. Coffin notes, while the state does forgo some tax revenues due to the issuance and redemption of the tax credits, this is

clearly offset many times over by the economic activity that otherwise would not have been generated but for historic rehabilitation projects.

The Program is generally designed to achieve its outcome in the most efficient manner. The Subcommittee received a report from the National Trust for Historic Preservation, a copy of which is enclosed, which identifies the two factors that most hinder the effectiveness of state historic tax credits: a limit or cap on the on the amount of credit and a lack of transferability. Tax credits issued under the Program are currently freely transferable in accord with Missouri law. The state also imposes a \$140 million annual limit on tax credit authorizations, but as noted above, the cap was not met in FY 2010. Subcommittee members suggested that the cap will not be met in the near future, suggesting that the reduced effectiveness typically created by an annual cap may be minimized in Missouri for the next several years. The National Trust report also stressed the need for appropriate rates of tax credits as a percentage of QREs. The report noted that rates which are significantly lower do not provide incentives sufficient to influence a developer's decision to undertake a historic rehabilitation project. According to that report, rates of tax credit should be between 20% and 30% of QREs. Missouri currently issues historic rehabilitation tax credits for 25% of QREs. The Subcommittee notes that the Program is a successful program as currently designed, and is the model program for states around the nation seeking to implement historic tax credit programs. The Subcommittee will, however, propose modifications to certain aspects of the Program in an effort to address the legitimate concerns over the unpredictable impact of the Program on the state budget.

The Program is a benefit to the state of Missouri in its current form and is a model for the nation, but Missouri is best served with serious, substantive recommendations for change which attempt to strike a balance between all perspectives offered to the Subcommittee. Some members of the Subcommittee do not believe that there are better mechanisms for accomplishing the defined outcome of the Program, arguing that reductions in the amount of money available or procedural changes designed to reduce the amount of tax credits issued are needless and potential harmful changes. Other members expressed support for modest substantive changes, such as a slightly lower annual cap or minor reductions in the amounts of tax credits as a percentage of QREs, but only if such changes would allow the Program to remain a viable driver of economic development. Finally, some members were consistent in their advocacy for significant changes to the Program. These members noted their belief that the Program does not produce an optimally cost-effective return for taxpayers, or that the state budget can continue to accommodate the current Program size. They also noted that the amount of tax credits authorized and issued were more than 100% higher than in any other state, and accordingly supported a reduction in the amount of money available to the Program through a lower annual cap, reduced amounts of tax credits as a percentage of QREs, and other changes which could lower the overall tax credit output of the Program. The recommendations which follow reflect the Subcommittee's commitment to reporting those recommendations for changes which will most benefit the state of Missouri through continued use of the Program.

## **VI. Subcommittee Recommendations**

### **A. Reduction of Annual Cap**

The Program currently prohibits DED from approving applications for tax credits which, in the aggregate, would exceed one hundred forty million dollars (\$140 million) in any fiscal year.

The Subcommittee recommends that annual cap on tax credit allocations at the current level, in consideration of the compromise resulting in the imposition of the cap in 2009, the belief that a reduction would not result in any significant positive impact to the state budget, and the lack of any meaningful history since the cap was put in place.

### **B. Carryback/Carryforward**

The Program currently includes a three (3) year “carryback” period for tax credits. In other words, an issued tax credit may be applied to taxes of a taxpayer for any tax year up to three (3) prior to the year of issuance.

Further the Program currently includes a ten (10) year “carryforward” period for the tax credits. In other words, an issued tax credit may be applied to taxes of a taxpayer for any tax year up to ten (10) years following the year of issuance.

As a way of helping create greater budget predictability, the Subcommittee recommends:

- reduction of the “carryback” to one (1) year from the year of issuance.
- reduction the “carryforward” to five (5) years from the year of issuance for any credit that is transferred in accord with state law. The “carryforward” should remain at ten (10) years for any credit that is retained by the party to whom it was originally issued (i.e. non-transferred credits).

### **C. Deferred Developer Fees**

The Program currently permits “developer fees” to be included as a QRE. These fees are often deferred and paid over a number of years from the cash flow of a completed project.

The Subcommittee recommends removal from the definition of QRE deferred developer fees paid out of future cash flow beyond the qualifying construction period. This modification will eliminate the risk that credits are issued for costs not incurred due to defaults of projects and will reduce costs to the state.

Additionally, in consideration of the difficult economic environment, the Subcommittee recommends that DED administratively extend the period for payment of deferred developer fees from six (6) years to twelve (12) years (as is currently permitted under federal guidelines) for approved projects which have already had tax credits issued, including those which have been referred to the Attorney General’s office for review.

#### **D. Credit Stacking**

The Program currently allows for credits to be claimed on projects which also receive other state tax credits or incentives, the so called “stacking” of incentives to make a project economically viable. This has led to criticism that projects which are not commercially viable are being undertaken only due to the basket of incentives being provided.

The Subcommittee believes that the issue is an overarching concern that reaches beyond just the Program. However, in order to demonstrate support for this concern, the Subcommittee recommends that the percentage of the total QREs of an eligible project for which credits may be claimed be reduced from the current twenty-five percent (25%) to twenty percent (20%) for any project which also receives state low-income housing tax credits.

#### **E. Reduction of Percentage of Credit**

The Program currently allows for credits to be claimed on up to twenty-five percent (25%) of the total QREs of an eligible project.

The Subcommittee recommends that the percentage QREs for which credits may be received remain at 25%. The removal of the deferred developer fees from the definition in QREs and the limitation on the percentage of credits available to “stacked” projects are expected to lower the overall amount of credits issued, therefore minimizing the need to accordingly reduce the percentage of credits.

#### **F. Owner-Occupied Cap**

The Program currently provides that no more than two hundred fifty thousand dollars (\$250,000) in tax credits may be issued to any one rehabilitation project of eligible property which is a non-income producing single family, owner occupied residential property.

The Subcommittee recommends that the cap on such owner-occupied projects be reduced to one hundred fifty thousand dollars (\$150,000) in tax credits.

#### **G. Cost Certification Review**

The Department of Economic Development currently audits the cost certifications on which taxpayers submit their final accounting of QREs.

The Subcommittee recommends that DED consider implementing a neutral, third-party review process for review of all final cost certifications. Such a review would ideally be completed within thirty (30) days of submission of the final cost certification. The Subcommittee recommends that the cost of this new review process be paid from the funds collected from the existing 2.5% application fee imposed by DED.

#### **H. Program Efficiencies**

The Efficiency Recommendations initially presented at the September 20, 2010 meeting of the Subcommittee include a number of areas in which the Program could potentially be changed, through either regulatory or statutory revisions, to improve the public/private partnership between the development community, the finance community and the state in administering the Program. The following is a summary of those issues which, while not items

which the Subcommittee specifically recommends for Commission action, are matters which the Subcommittee believes should be further discussed and considered by DED.

### **1. Expenses**

Missouri's definition of QREs uses the federal definition as a baseline, and permits certain other expenses to qualify. The precise list of QREs used by DED could be revised to ensure it corresponds to the federal definition. Even with such revisions, DED should retain discretion in assessing the qualifications of such additional QREs, particularly in the key areas of accruals, deferrals, and developers fees. Moreover, DED should continue to require audits, where applicable under current law, and to verify that all qualifying expenses have been incurred before any tax credits are issued.

### **2. Timing of QREs**

Currently, DED does not permit applicants to be reimbursed for QREs incurred prior to approval of an application for tax credits by DED or prior to registry of the building on the proper historic register. Eligible applicants could be permitted to incur qualifying expenses, at their own risk, from the earlier of either (i) the commencement of construction or (ii) one (1) year prior to initial authorization for tax credits. Additionally, an applicant could be allowed to commence construction on a project and incur qualifying expenses, at their own risk, before the project is listed on the required historic register. If a project is ultimately approved, expenses are verified, and the work is certified as having been performed in accord with historic standards, the applicant could then be eligible to receive tax credits for all qualifying expenses, including those expenses incurred earlier than the timeline currently used by DED. In addition, DED is required to issue tax credit certificates in the final year that QREs were incurred or within the twelve (12) month period immediately following conclusion of the project. This timeline could be extended in thirty (30) day increments upon the mutual agreement of DED and the taxpayer to better allow parties to verify supporting documentation and cost data in good faith.

### **3. Requirements for Preliminary Approval**

DED currently interprets that portion of the historic tax credit statute which lists the prerequisites for a preliminary approval of an application to require a number of items which many believe should not be interpreted as contingencies to approval. For example, DED now requires approval of a project by SHPO prior to preliminary approval of an application. It could be clarified that review and approval of a project by SHPO is not a prerequisite to review and preliminary approval of an application by DED. To this end, the list of items required for preliminary approval could be revised to more accurately reflect only those materials which are vital to assessment of an application for preliminary approval.

### **4. Small Deal Exemption**

The modifications to the tax credit statute passed in 2009 included an exemption for certain small projects which do not receive tax credits in excess of \$250,000. This "small deal exemption" was designed to remove smaller projects from the entire preliminary application process, and accordingly from the calculation of the annual cap

on tax credit applications. DED interprets this exemption to apply only to calculation of the annual cap, and is requiring that projects meeting this small deal exemption still submit to the preliminary application process. It could be made clear that any project meeting the small deal exemption is exempt from the entire preliminary application process, including calculation of the annual cap, and is only subject to final approval for tax credits.

#### **5. Excess certificates**

From time to time, preliminary approval may be granted to an application and the final cost certification shows that the project had verified QREs which would result in more credits than initially approved. The historic tax credit statute currently allows a taxpayer to submit an application to DED for the amount of credits in excess of the authorized amount. This procedure could be modified to clarify that applications for issuance of tax credits in excess of the preliminarily approved amount should be automatically approved, subject only to availability of credits and the priority mechanisms in the statute.

#### **6. Appeals Process**

A formal and public appeals process could be established for applications whose submissions, at any stage, have been officially denied by either DED or SHPO. Such appeal could be heard by parties not involved in the original denial. Similar appeals processes are used by states such as Iowa and Louisiana, and by the National Park Service for the federal historic tax credit program. Such appeals processes can be tailored to the Program's specific requirements.

#### **7. Issuance Fee**

The amount and use of the existing 2.5% issuance fee collected by DED merits further discussion to ensure that adequate funding is made available for the administration of the Program by DED and SHPO, which is a critical component of the continued success of the Program.



## **ENCLOSURES**

- Presentation Materials and Report – Dr. Sarah Coffin, St. Louis University
- Presentation Materials and Historic Tax Credit Example – Sallie Hemenway and Alan Spell, Missouri Department of Economic Development
- National Trust for Historic Preservation Report (2010)

# An Evaluation of Missouri's Historic Preservation Tax Credit Program on Job Creation and Economic Activity

Report prepared by Sarah L. Coffin,  
Ph.D. and Robert W. Ryan, MAUA  
Saint Louis University

## Study Methodology

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- Step 1 – Factor analysis for statewide model
- Step 2 – Generate impact model
- Step 3 – Cluster analysis for secondary analysis of sub-markets across state
- Step 4 – Case study interviews in sub-markets

## Factor Analysis

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- *J = Factor describing jobs & job change 1994 - 2000*
- *N = Factor describing neighborhood characteristics*
- *P = Factor describing 2008 population levels and population change 1990 - 2000*
- *I = Factor describing household & per capita income in 2008 & change 1990 - 2000*
- *C = Count of HPTC credits issued from 2000 - 2006*

## Study Model

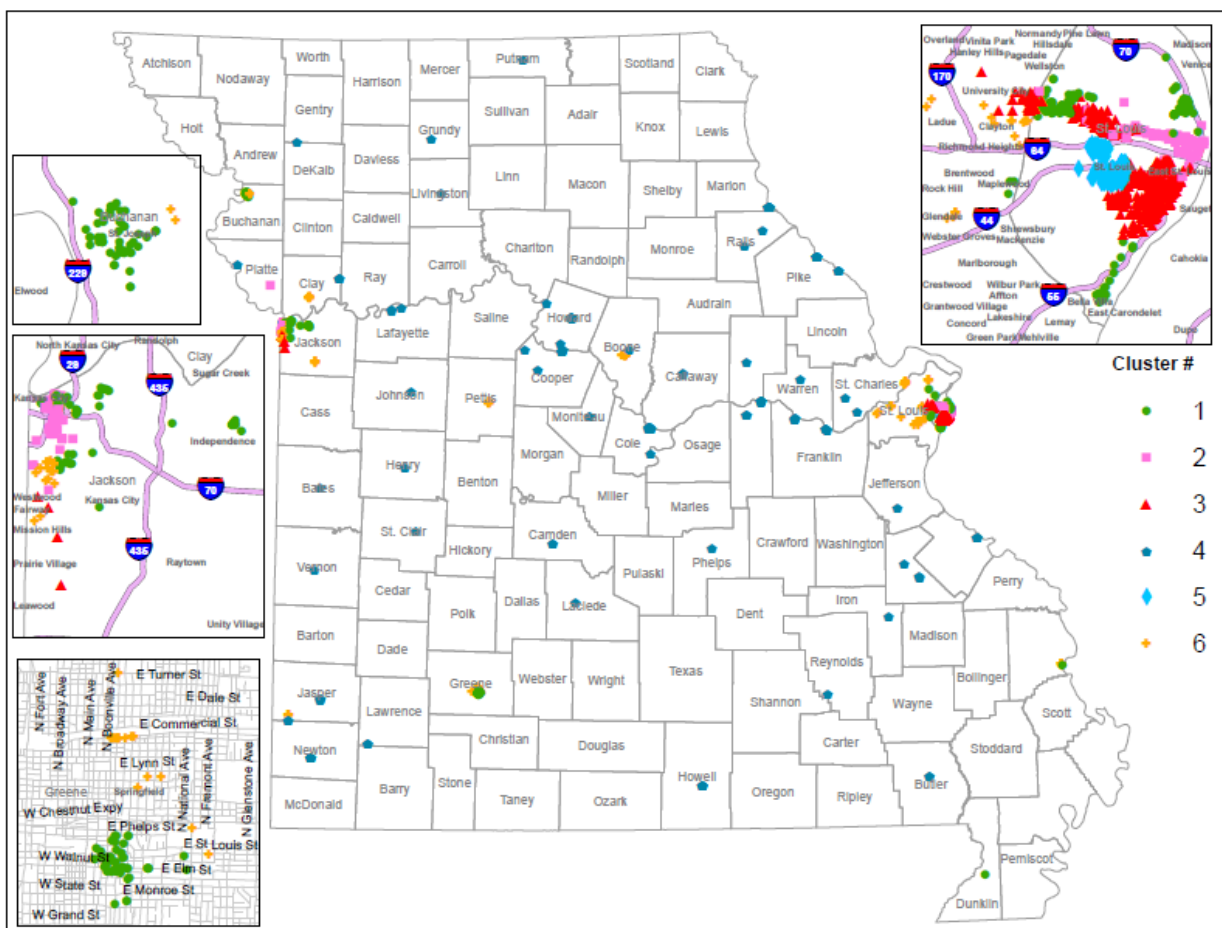
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- $E_{2007} = J + N + P + I + C$
- *Where  $E_{2007}$  = Total employment in 2007*

# Create Clusters

**Cluster Distribution**

		N	% of Combined	% of Total
Cluster	1	350	20.5%	20.5%
	2	244	14.3%	14.3%
	3	660	38.6%	38.6%
	4	128	7.5%	7.5%
	5	197	11.5%	11.5%
	6	131	7.7%	7.7%
Combined		1710	100.0%	99.9%
Excluded Cases		1		.1%
Total		1711		100.0%

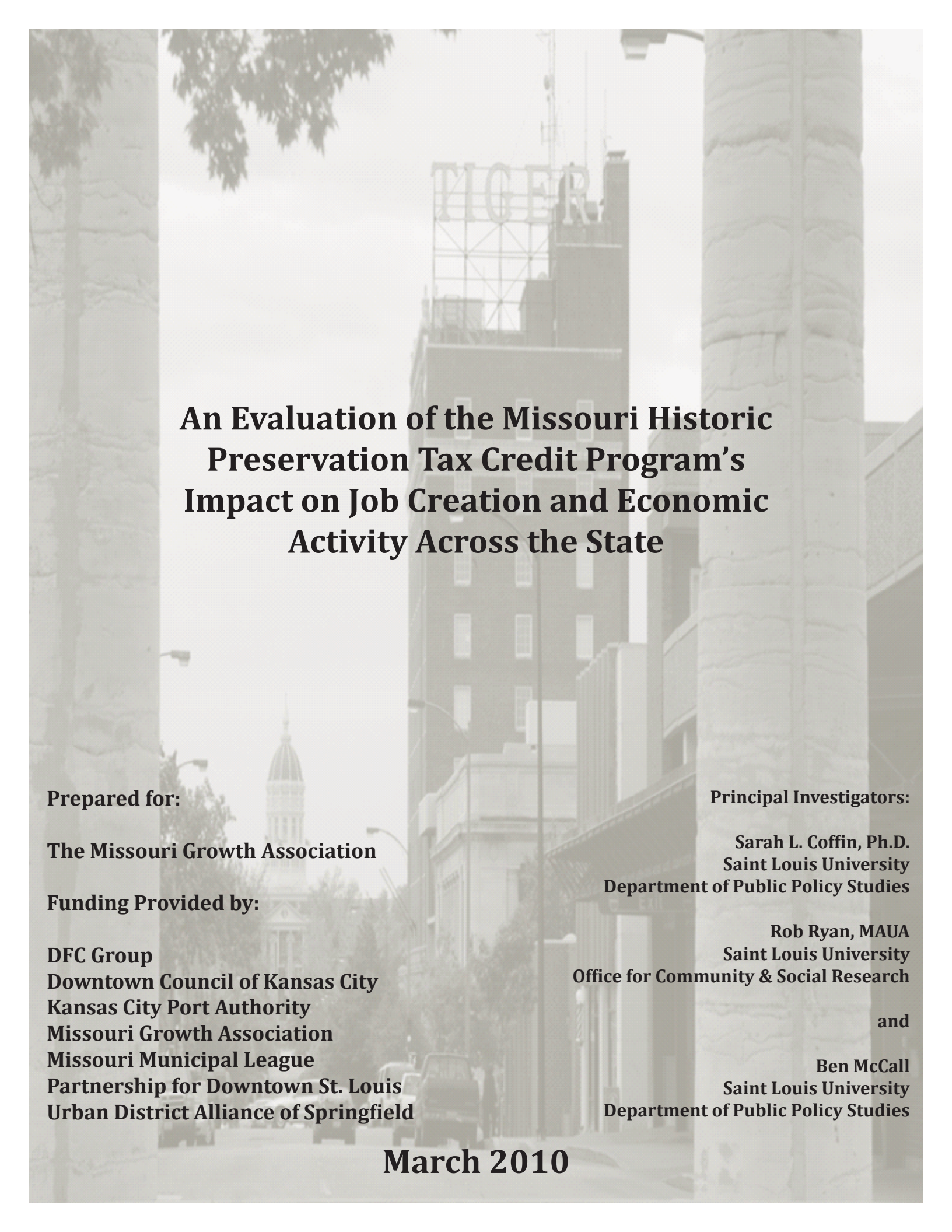


## Study Results

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- Model Output: Each HPTC project had 25 additional new jobs associated with it.
  - Interpretation: Total job creation 43,150
- All calculations in report based on that finding.





# **An Evaluation of the Missouri Historic Preservation Tax Credit Program's Impact on Job Creation and Economic Activity Across the State**

**Prepared for:**

**The Missouri Growth Association**

**Funding Provided by:**

**DFC Group  
Downtown Council of Kansas City  
Kansas City Port Authority  
Missouri Growth Association  
Missouri Municipal League  
Partnership for Downtown St. Louis  
Urban District Alliance of Springfield**

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**March 2010**

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# Executive Summary

Nearly a decade after its creation, the Missouri Historic Preservation Tax Credit (HPTC) program has been used in cities, towns, and counties across the state. By 2010, the program has been hailed as a model for similar programs in states across the US. This fact notwithstanding, the evaluation of the program found in this document has been created to answer questions about how the program has impacted Missouri.

According to data provided by the Missouri Department of Economic Development, there were 1,726 applications where credits were issued under the Historic Preservation Tax Credit Program from 2000 through 2009. While most of these applicants were from the St. Louis and Kansas City Metropolitan areas, the St. Joseph area is the fourth largest beneficiary of the program.

As of the end of 2009 we note the following statistics about the program:

<b>Average tax credit issued:</b>	<b>\$ 482,340</b>
<b>Median tax credit issued:</b>	<b>\$ 78,505</b>
<b>Maximum amount issued:</b>	<b>\$ 20,179,741</b>
<b>Minimum amount issued:</b>	<b>\$ 399</b>
<b>Approximately 33% of the projects used less than \$50,000 in tax credits</b>	
<b>Approximately 57% of the projects used less than \$100,000 in tax credits</b>	
<b>Less than 13% of the projects used more than \$1 million in tax credits</b>	

These usage statistics suggest that the program is widely used across multiple types of projects. In looking at the spatial distribution of the projects across the state, beyond the program's use in St.

Joseph, it is worth noting that we found program use in 42 of the 115 or 37% of the counties across the state. Normalizing HPTC use by an indicator of the amount of potentially eligible properties, the number of housing units in a county built before 1940, Map 1 on the following page shows a fairly even distribution across the state.

Our economic impact analyses, described in detail in this report, find that the HPTC is associated with:

**43,150 new or retained jobs with an average salary of \$42,732**

**\$669,872,192 new sales/use and income tax revenue to the state and local governments**

**\$2.9 billion in leveraged private investment**

**Higher-than-expected rates of annual job growth**

**Higher-than-expected increases in high-paying sustainable jobs**

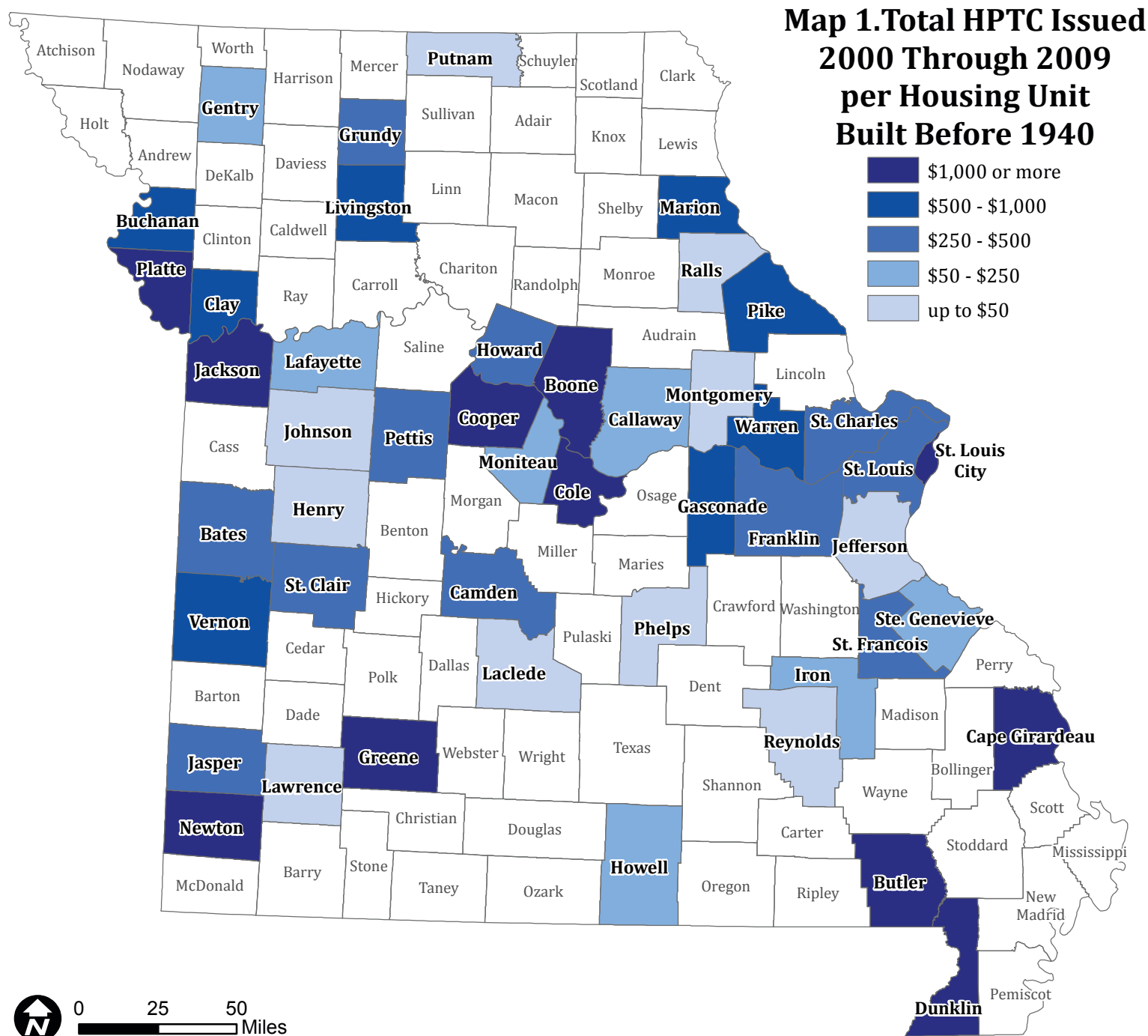
Further insight into these conclusions as well as detailed explanations of how we determined our figures make up the remainder of this document. It becomes evident that the HPTC program is associated with positive economic performance in Missouri over the past ten years that exceeds many expectations. This seems to include a softening of the effects of the recession of the early 2000s. Assuming that the program continues to be administered effectively and responsibly, we see no reason why the HPTC program will not be found to be associated with positive effects during the current recession and growth in the state of Missouri once it is over.

# The Missouri Historic Preservation Tax Credit Program in Context

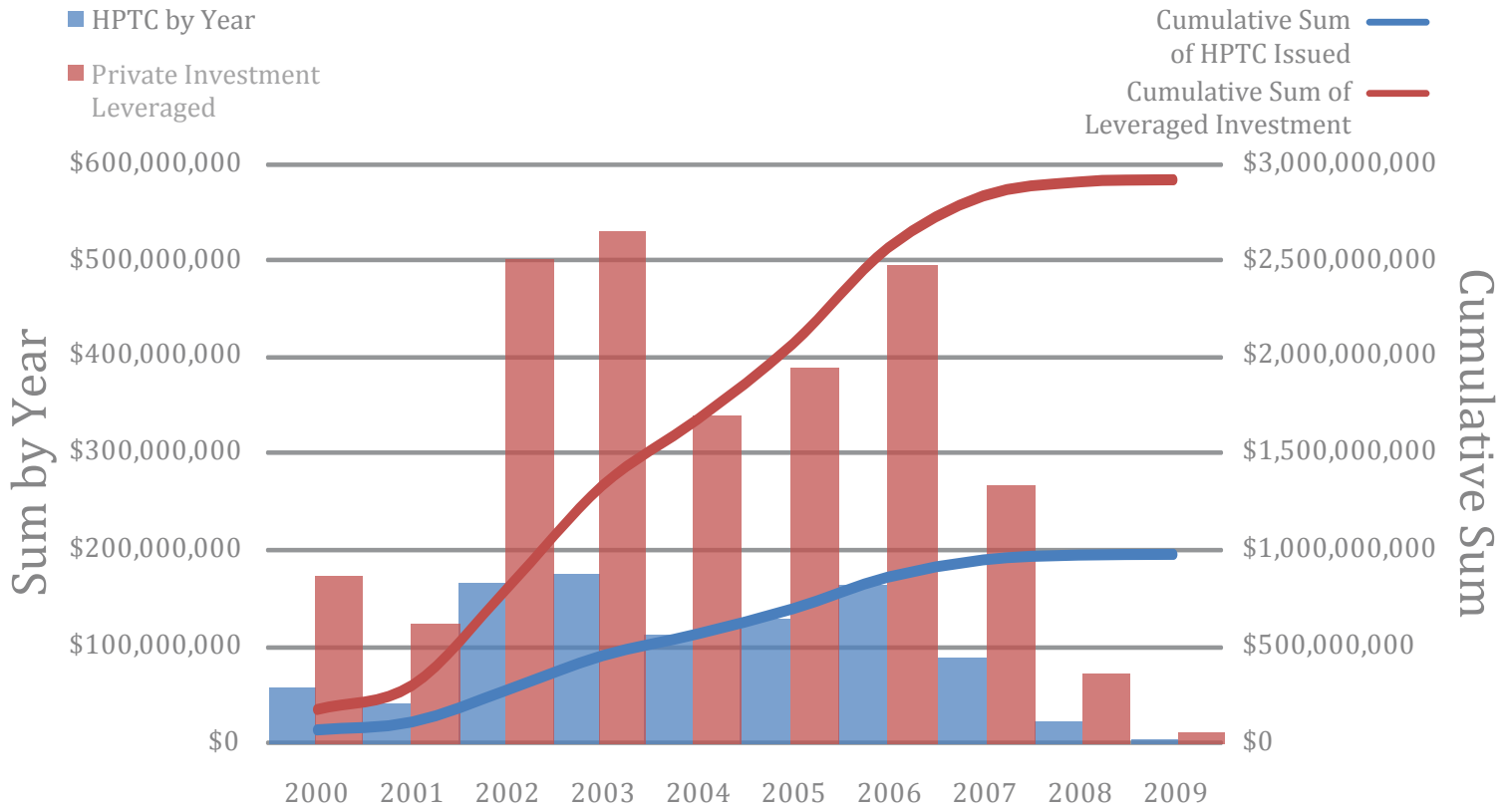
On a dollar-by-dollar basis the majority of the HPTC appears to go to Missouri's two largest urban areas. By design, the HPTC is only eligible to be used on properties listed on the National Register of Historic Places or within a Certified Local Historic District. Map 1 below shows how HPTC are used in counties

across the state, based on the amount of property we might expect to be eligible for listing on historic registries. Although not all counties have taken advantage of the program, there are tens of thousands of potentially historic properties in the state waiting to be the rehabilitated or restored.

Another potential source of confusion that needs to be addressed is the notion that tax credits such as the HPTC represent a state expenditure. Through a



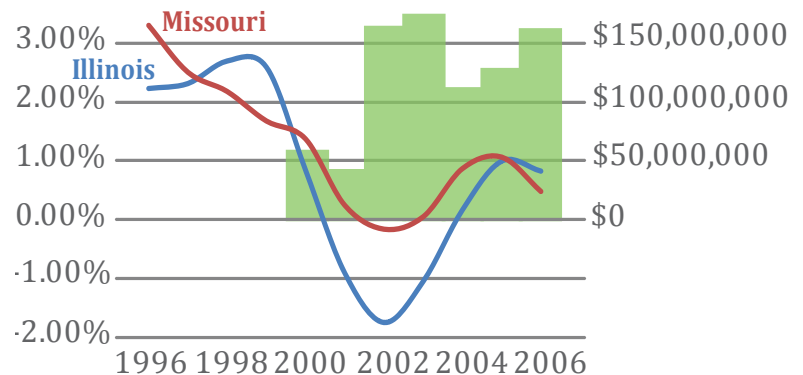
## Figure 1. HPTC and Leveraged Private Investment, 2000-2009



series of case studies and interviews, one section asks whether a representative sample of projects receiving the HPTC would have occurred “but for” the availability of the subsidy. From these, we can conclude that the private investment, which by the program’s design is always many times the amount of the project, never would have occurred without the credits. Therefore, while the state does forgo a certain amount of revenue, it is offset many times by the economic activity that otherwise would not have been generated.

Figure 1 above shows how this leveraged private investment compares to HPTC issues. The bars on the graph indicate annual sums of HPTC issued and private investment that can be associated with that amount. The lines represent a cumulative sum of these same figures, showing how these amounts compare over the life of the HPTC program. It becomes clear that the value of credits issued are far less than the volume of private investment that otherwise would not have been created. The extent to which this investment would not have otherwise

**Figure 2. Three-year Moving Average of Annual Change in Employment and HPTC Issued**



been made is addressed through the case studies found in the next section. How this private investment translates into tax revenue is discussed later.

Figure 2 above shows how Missouri’s job growth compares to Illinois, which does not have a state HPTC program. Of course this relationship doesn’t prove causality. The use of Illinois as a point of comparison will be used more in a later section.

# Measuring the HPTC's Impact

## Research Design

We begin evaluating the HPTC by looking at the neighborhoods in which projects have taken place. This study is designed to provide an alternative way of looking at the economic impact of the HPTC. Rather than using a traditional input-output model to estimate job creation and increased economic activity, we developed a model to determine what portions of changes over the past decade can be attributed to the use of the HPTC. That is, we analyzed employment, payroll, taxable sales, and demographic data for the past two decades and looked for ways in which things may have changed differently in areas that used the HPTC since the program's inception.

To be sure, many of the neighborhoods which have experienced development subsidized by the HPTC program have been on long paths of decline. Old downtowns and neighborhoods across North America have been losing population and businesses to newer suburbs. Many have been lured by the various public incentives to do so, including the provision of interstates and highways which make lower-density living possible and the home mortgage interest deduction, among others. But has the HPTC, as one case study interviewee put it, been successful at “stemming the decline” of these historic neighborhoods? And have HPTC projects created new jobs and state revenue in the process?

This question is much more difficult to understand than a simple analysis to determine if economic activity “went up” in areas experiencing a particular intervention. Therefore, the following section has been provided to illustrate the ways in which our model works. A more detailed methodology can be found in Appendix A.

## Initial Findings

The basis for our major findings is model output indicating that each HPTC project is associated with 25 new or retained jobs.

The implications of this increase will be discussed in detail in the section on impacts to the state. First, the following section illustrates how our model compares areas which are similar in many ways, but are distinguished from one another by the presence of HPTC projects. For each group of comparable areas in Missouri and Illinois, we have provided a graph showing year-over-year change in total employment for the counties in which the areas are contained. We have also provided a map of our model with the HPTC count variable taken out.

The result is a set of maps showing the difference between the expected number of jobs in 2007 (based on our four factors) and the actual number of jobs in 2007 in each ZIP code. That HPTC projects, shown as green dots, generally line up with higher-than-expected jobs figures should not be taken as an argument of causation. Our model shows that HPTC projects are associated with increased jobs, and these maps are provided to illustrate how our model works.



*Photo of an award-winning project in Harrisonville, MO courtesy of Micheal Griffin, Shaw Hofstra & Associates*

# Columbia & Springfield vs. Bloomington-Normal & Champaign-Urbana

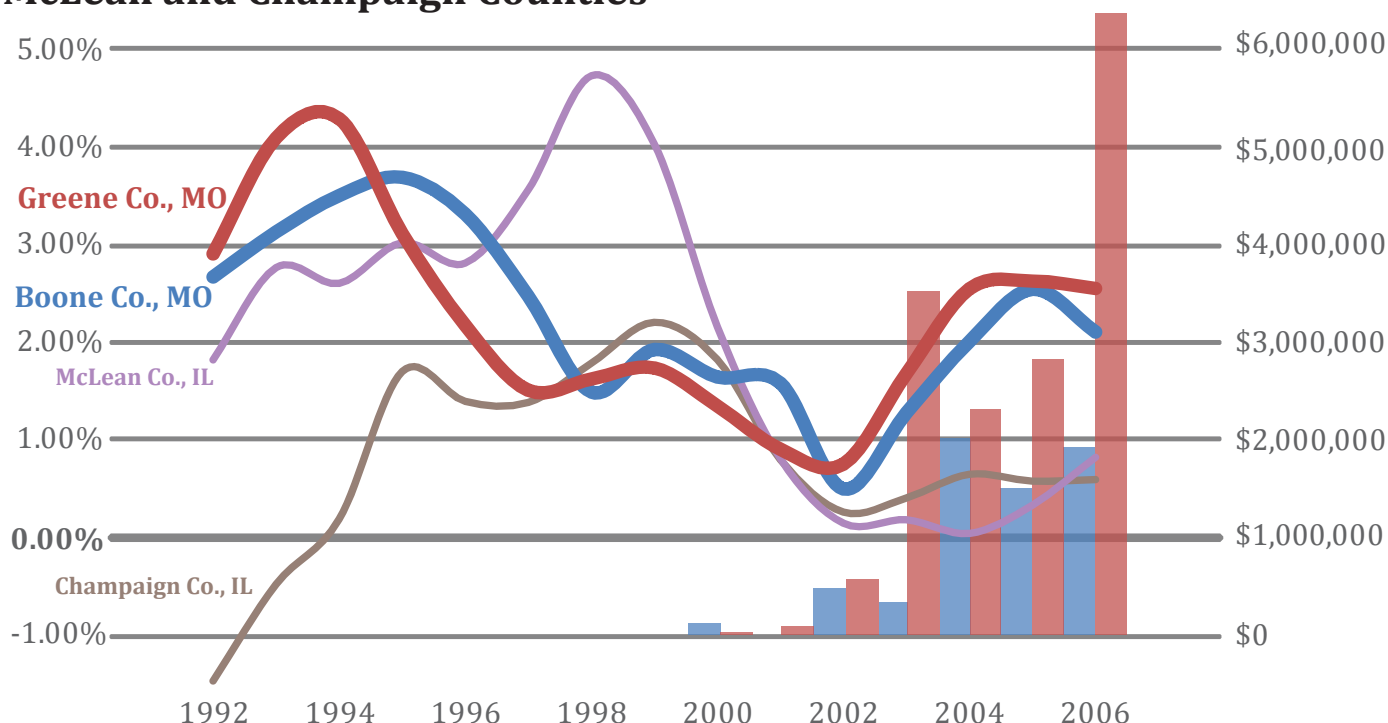
	Boone Co., MO	Greene Co., MO	Champaign Co., IL	McLean Co., IL
Population	149,011	259,227	186,843	163,626
Jobs	112,252	206,675	128,352	111,321
Jobs:Pop	1:1.3	1:1.2	1:1.4	1:1.4
Housing Units Built Before 1940	5.49%	9.81%	11.98%	16.37%
Median Home Value	\$147,675	\$118,362	\$127,993	\$139,790
Residential Vacancy Rate	9.28%	7.95%	8.42%	6.87%
Per Capita Income	\$24,405	\$23,735	\$24,259	\$26,447

Columbia, in Boone County, MO, and Springfield, in Greene County, MO, share a lot in common with McLean County, IL's Bloomington-Normal and Champaign County, IL's Champaign-Urbana. Columbia is home to the University of Missouri and Missouri State University is located in Springfield while Illinois State University is in Bloomington-Normal and University of Illinois in Champaign-Urbana. The four counties are generally of comparable sizes, although Greene County, MO is quite a bit larger than the other three. The group tracks fairly closely on each of the other indicators found in the table at the top-right of this page as well.

employment for each of the counties in three-year averages to smooth out fluctuations. All counties reached a period of flat growth during the recession of the early 2000s, but Boone and Greene Counties began increasing at higher rates once again at around the same time that a number of HPTC projects occurred in each. Growth in the Illinois counties appears to have remained fairly flat throughout this same period. The maps show that the centers of Columbia and Springfield, where a number of HPTC projects can be seen to have taken place, had higher-than-expected numbers of jobs in 2007. Much of the Illinois counties seem to have under-performed, with central Bloomington arriving at far fewer jobs in 2007 than expected.

Figure 3 shows year-over-year change in total county

**Figure 3. Three-year Moving Average of Year-over-year Change in Total Employment and Total HPTC Issued in Greene and Boone versus McLean and Champaign Counties**

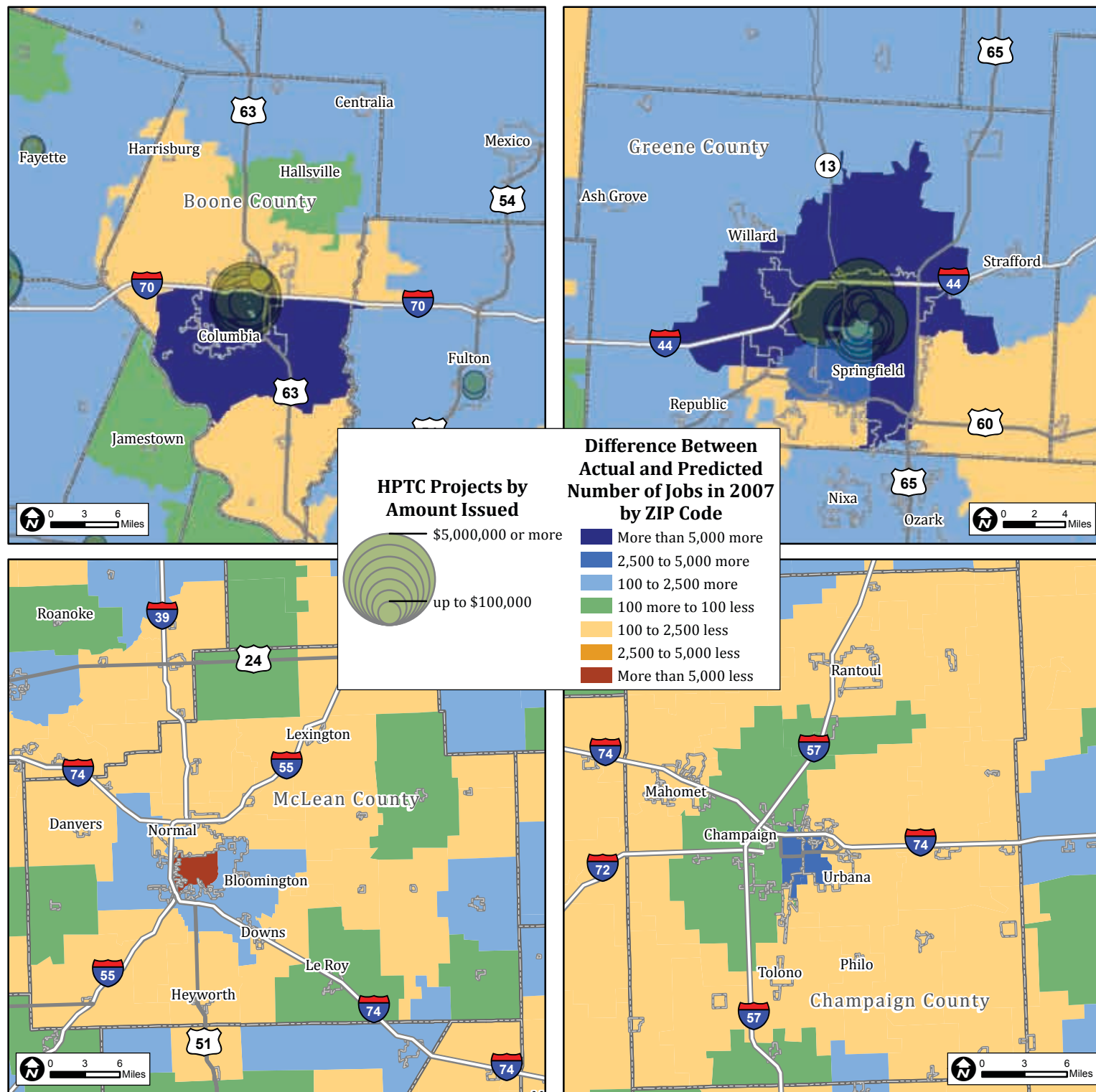




That such similar cities are experiencing such different growth trajectories seems noteworthy. Again, while this should not be seen as an indication of causation of any kind, it does serve to support the strength and validity of our predictive model.

That projects such as the Tiger Hotel in Columbia wouldn't have occurred but for the provision of HPTC

credits seems to suggest that patterns of sluggish growth in these mid-sized cities can be overcome with tools such as HPTC.



# St. Joseph & Joplin-Carthage-Neosho vs. Rockford & Quad Cities

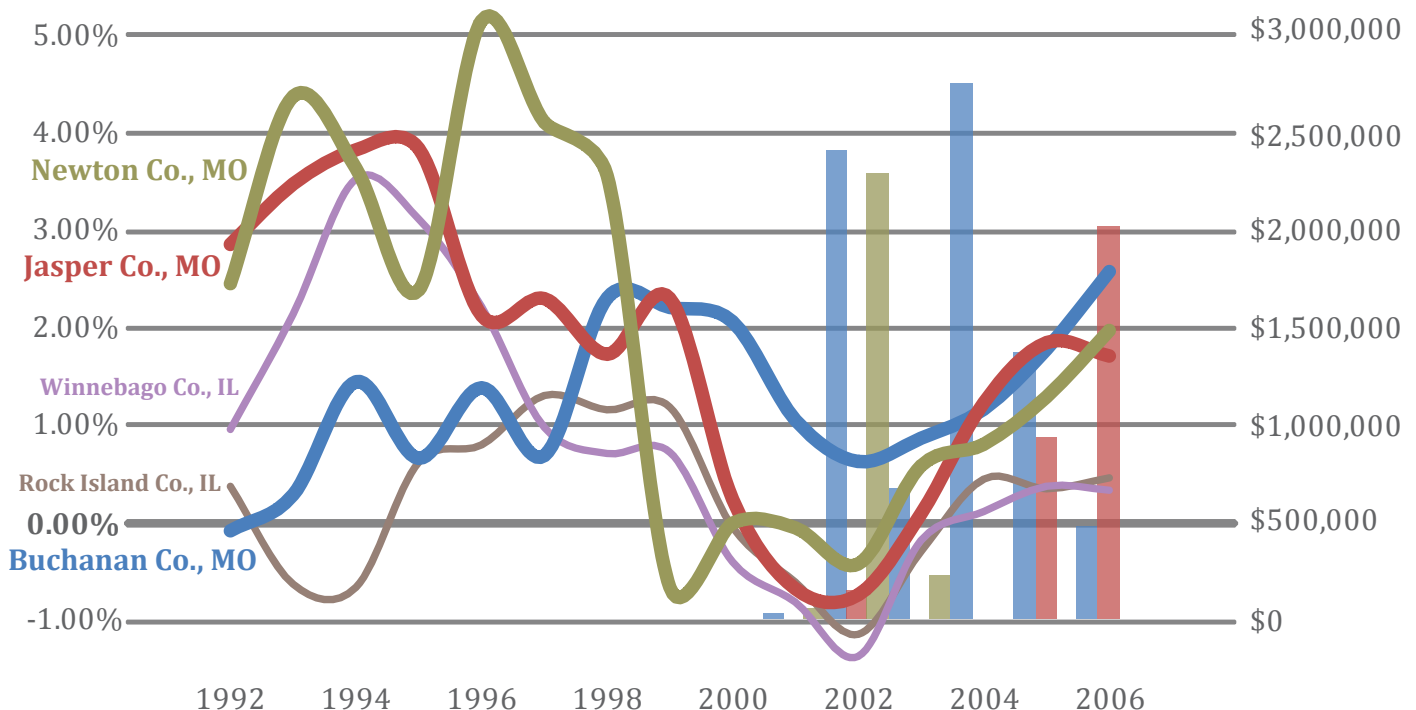
	Buchanan Co., MO	Newton Co., MO	Jasper Co., MO	Winnebago Co., IL	Rock Island Co., IL
Population	84,912	56,963	114,648	300,164	147,338
Jobs	59,804	27,304	78,211	172,838	96,150
Jobs:Pop	1:1.4	1:2.0	1:1.4	1:1.7	1:1.5
Housing Units Built Before 1940	30.89%	12.63%	18.88%	14.86%	24.41%
Median Home Value	\$101,568	\$105,071	\$85,624	\$121,901	\$98,826
Residential Vacancy Rate	10.38%	6.80%	9.07%	6.71%	6.37%
Per Capita Income	\$21,181	\$21,665	\$18,059	\$22,813	\$24,025

Buchanan County contains St. Joseph, MO and is just over an hour's drive from Downtown Kansas City. Rockford, IL is the seat of Winnebago County, located a similar distance from Chicago. Although Winnebago County is far larger, both cities are "second tier" within their states and located very near the centers of major metropolitan areas. Joplin and Carthage, both found in Jasper County, MO, and Newton County, MO's Neosho are similar to Rock Island County, IL's Rock Island and Moline, half of the "Quad Cities" on the Illinois-Iowa border. Each area is located some distance from any major metropolitan area and serves as regional centers for the surrounding rural areas.

Figure 4 shows that the Illinois counties had more stable growth through the 1990s than the Missouri Counties, which saw more fluctuation. All five counties dipped into negative annual job growth during the early 2000s' recession, but only those that saw some investment and HPTC use seem to have risen to higher year-over-year growth. Most interesting is St. Joseph's Buchanan County, which rose to its highest rate of annual change in two decades after experiencing a few million dollars' worth of HPTC projects.

Although their annual rate of change remained fairly low through the 2000s, Winnebago and Rock Island Counties do seem to have experienced some

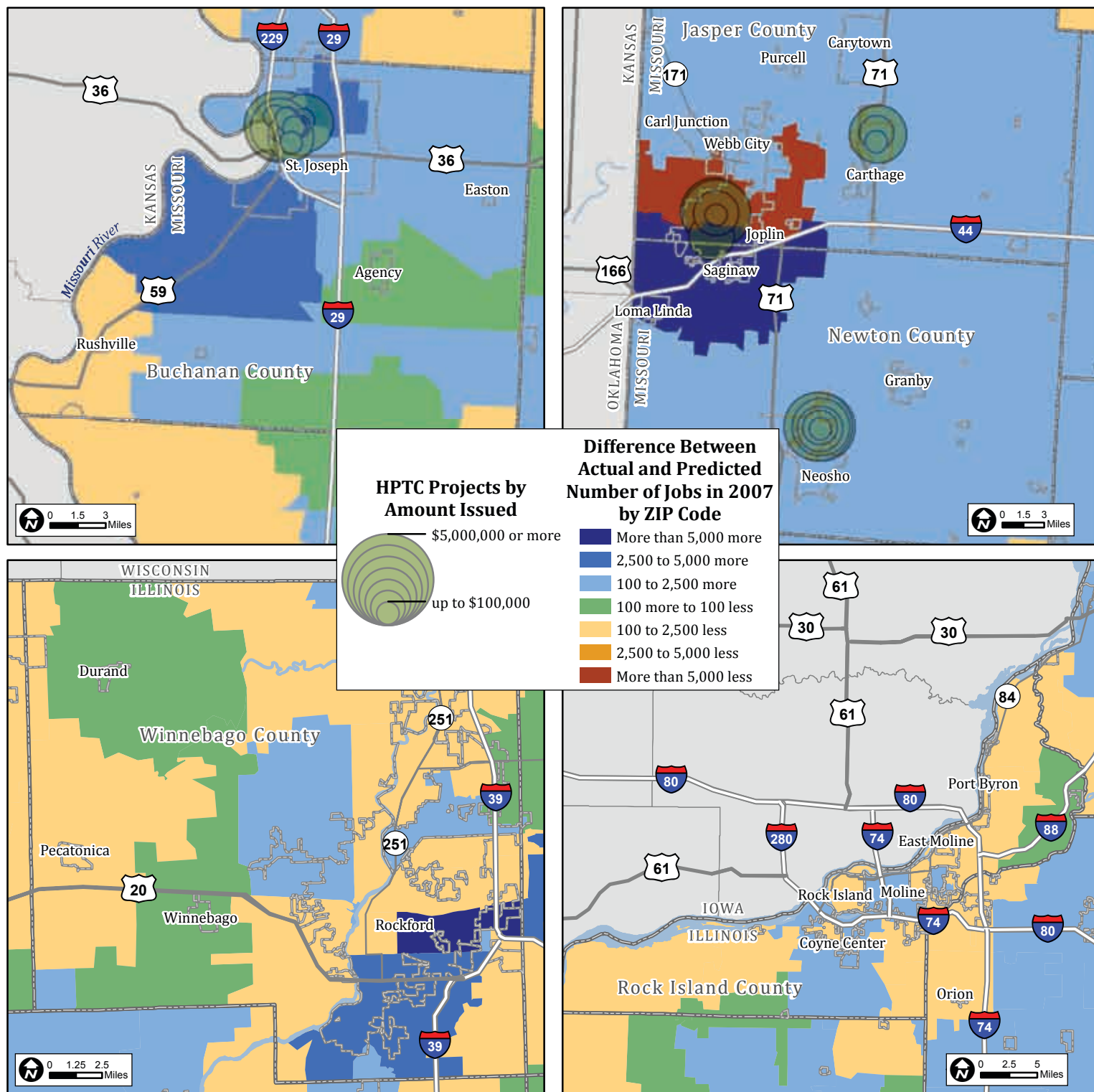
**Figure 4. Three-year Moving Average of Year-over-year Change in Total Employment and Total HPTC Issued in Newton, Jasper, and Buchanan versus Winnebago and Rock Island Counties**



better-than-expected jobs performance, according to data from our model shown in the maps. Anecdotal evidence suggests that significant downtown rehabilitation efforts have taken place in Moline and Rockford, but it is unclear how public funds have contributed to this.

place in a portion of Joplin that has been determined to be under-performing. However, the Southern part of Joplin and general areas surrounding Carthage and Neosho are showing better-than-expected numbers of jobs. It is unclear what might be causing this.

A number of HPTC projects appear to have taken



# Cape Girardeau vs. Carbondale & Decatur

Cape Girardeau, Missouri and Carbondale and Decatur in Illinois are useful points of comparison as they all are home to mid-sized, regional universities. Southeast Missouri University in Cape Girardeau and Southern Illinois University in Carbondale are particularly similar. In addition to these schools, Jackson County, where Carbondale is found, and Cape Girardeau County are located just across the river from one another. They also are each found near regional recreational areas and are seeing in-migration of retirees and others attracted to the wine countries and river- and lake-based activities.

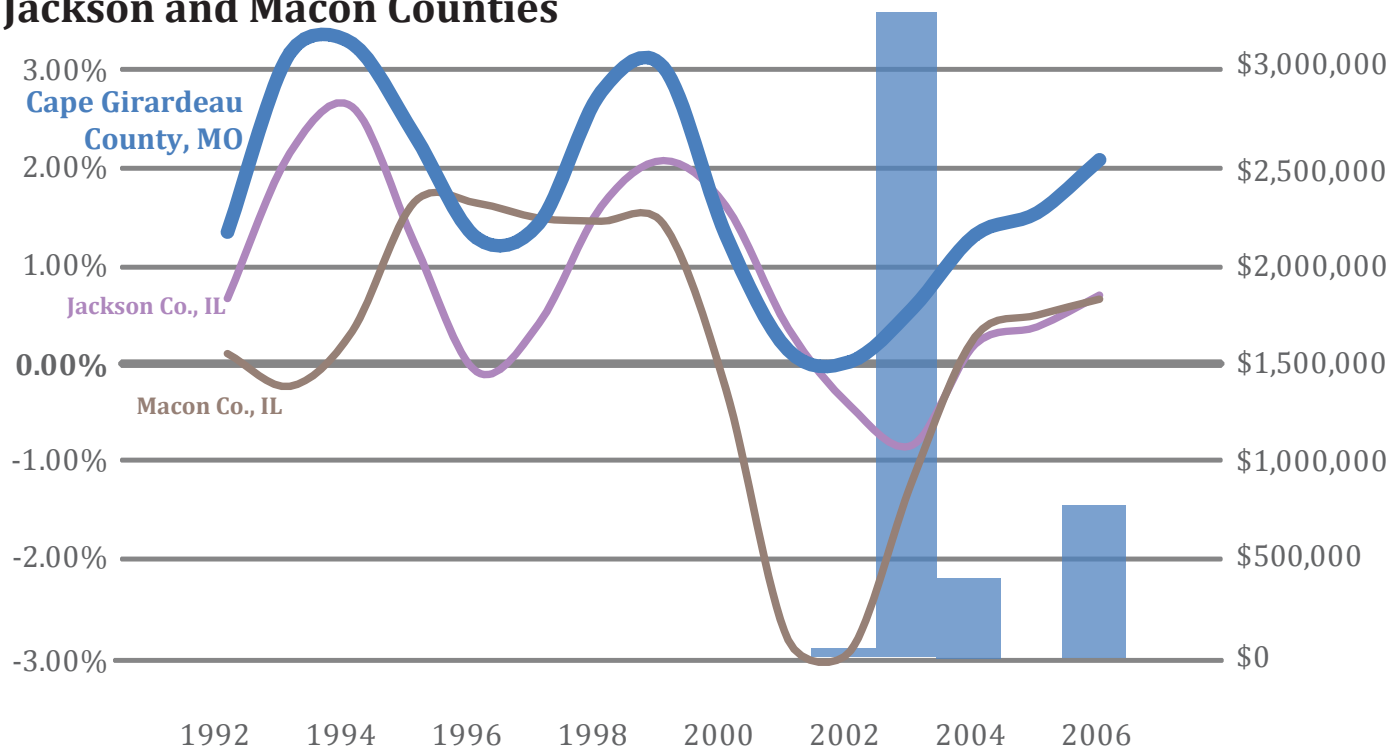
Decatur and Macon County are located further North, but are home to Millikin University. Macon County is by far the largest of the group. It also contains a higher proportion of jobs relative to population and a higher per capita income.

	Cape Girardeau Co., MO	Jackson Co., IL	Macon Co., IL
Population	72,803	57,479	108,324
Jobs	55,442	38,585	67,687
Jobs:Pop	1:1.3	1:1.4	1:1.6
Housing Units Built Before 1940	11.26%	12.36%	19.71%
Median Home Value	\$123,936	\$82,714	\$86,334
Residential Vacancy Rate	7.38%	11.71%	10.03%
Per Capita Income	\$21,818	\$19,676	\$23,637

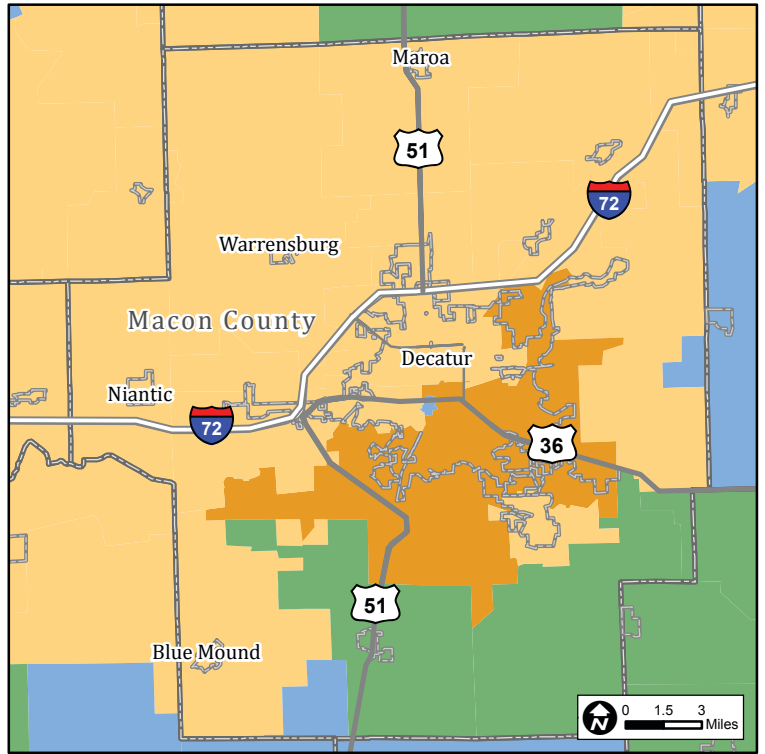
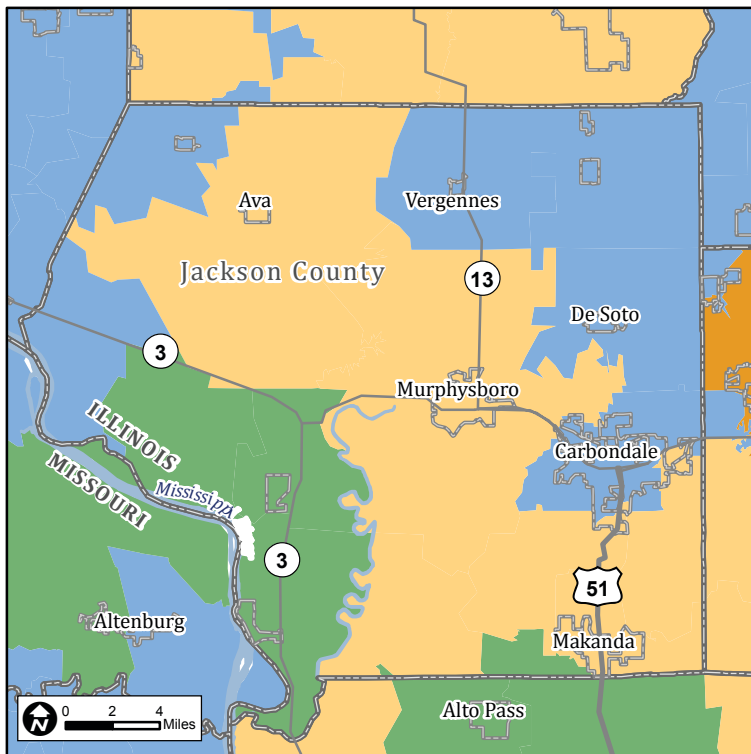
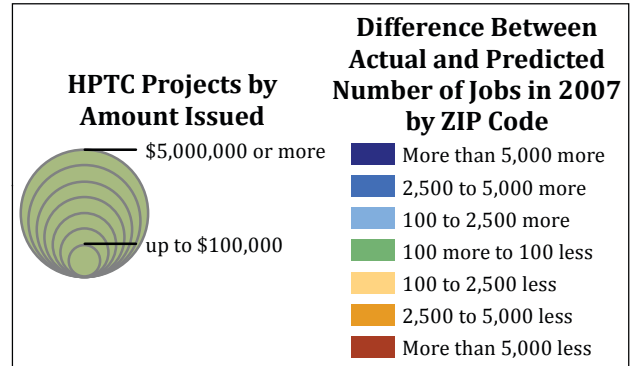
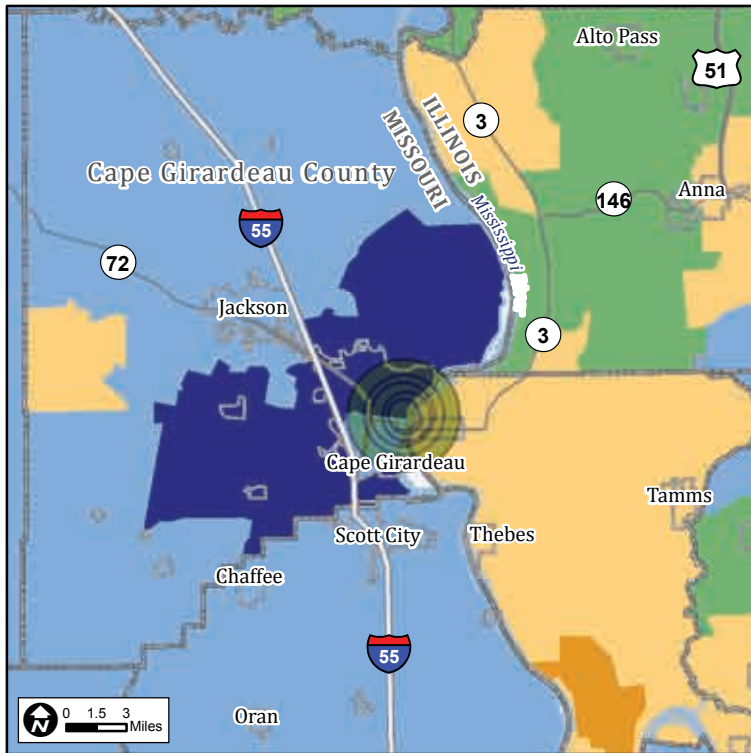
However, Macon County also appears to have under-performed in the 2000s. Cape Girardeau on the other hand, has seen the area surrounding it's principal city add far more jobs than expected.

While Carbondale has experienced higher-than-expected job growth in contrast with the rest of Jackson County, Cape Girardeau and the immediately surrounding areas have added many more jobs than expected.

**Figure 5. Three-year Moving Average of Year-over-year Change in Total Employment and Total HPTC Issued in Cape Girardeau versus Jackson and Macon Counties**







# Kansas City & St. Louis vs. Chicago

With economies that are by far the most dynamic and complex of any regions studied in this report, the centers of the largest metropolitan areas in Missouri and Illinois show mixed results that are more difficult to visualize. While there is a clear relationship between heavy HPTC use and ZIP codes experiencing job growth that is better than expected, there are many other things going on. It is striking to note that the City of Chicago has added fewer jobs than the model predicted. This finding makes more sense in slow-growth cities such as St. Louis and Kansas City.

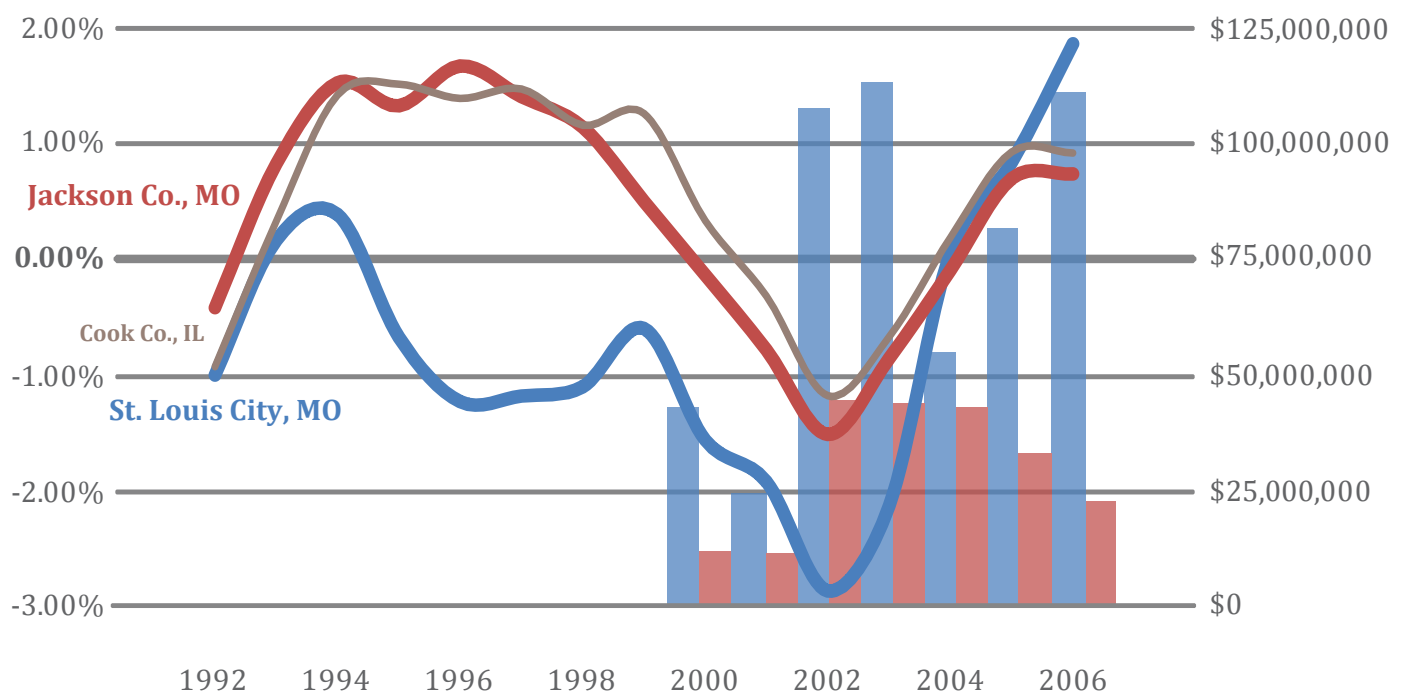
Whereas the illustrations here show the entire regions in which these cities are located, our model looks at a number of factors to pick out and compare only the most analogous areas. Therefore, it is significant that the Central West End in St. Louis and portion of Kansas City that is south of Downtown

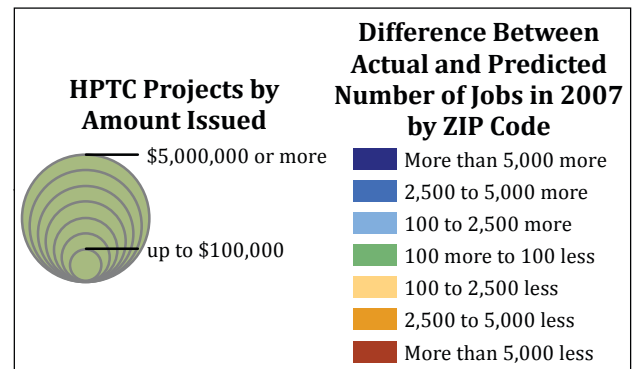
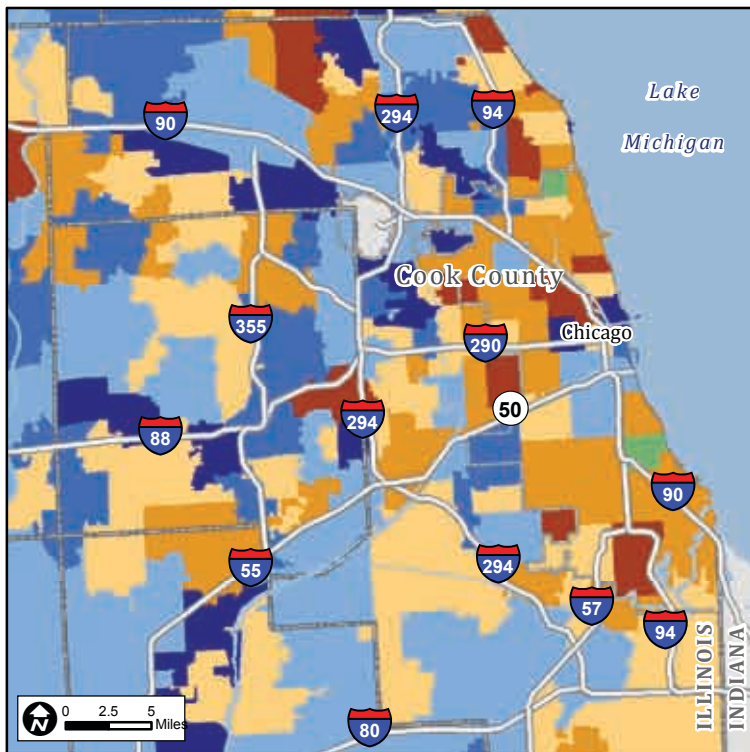
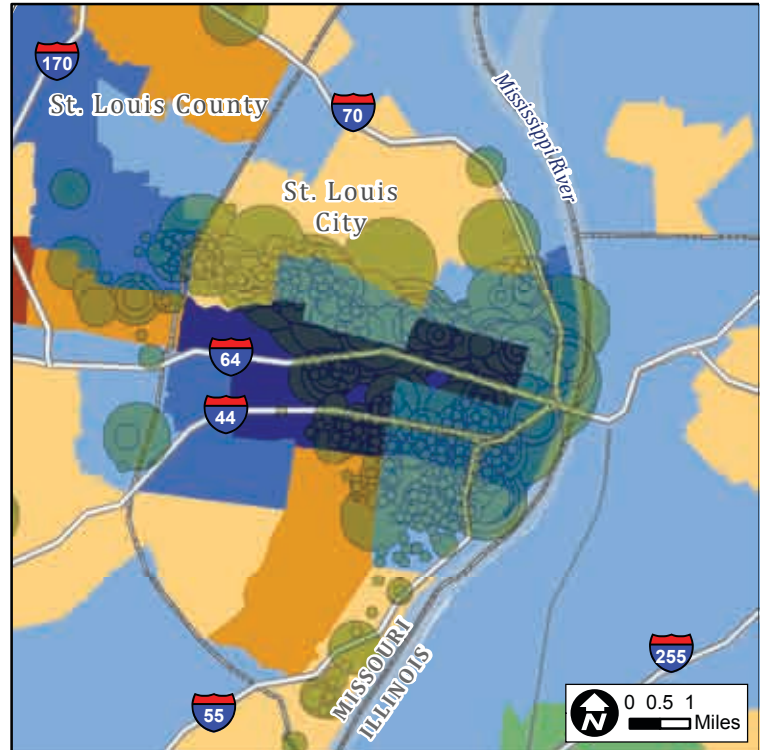
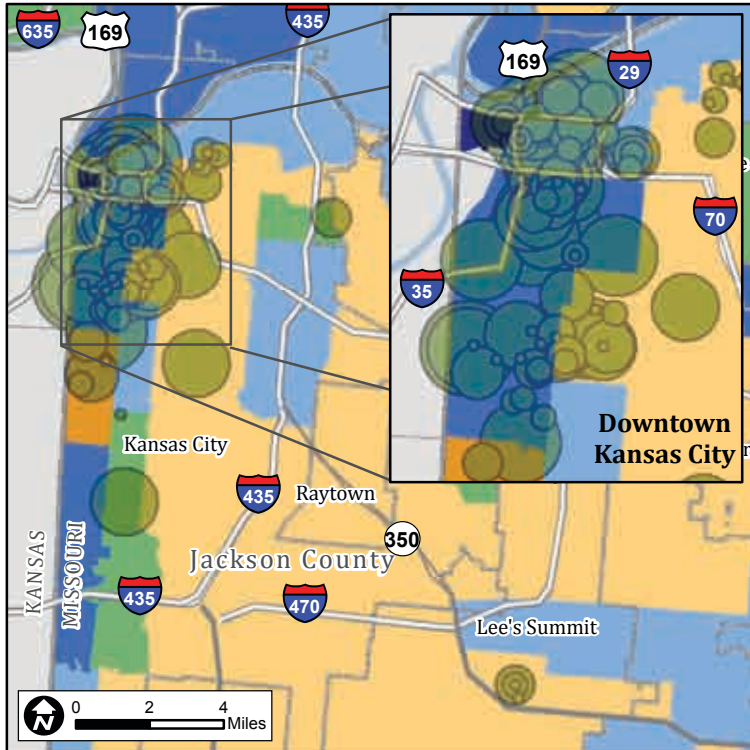
	Jackson Co., MO	St. Louis City, MO	Cook Co., IL
Population	665,821	354,843	5,261,577
Jobs	465,277	282,919	3,349,739
Jobs:Pop	1:1.4	1:1.2	1:1.5
Housing Units Built Before 1940	16.63%	44.73%	24.76%
Median Home Value	\$118,201	\$103,924	\$249,761
Residential Vacancy Rate	10.60%	16.75%	8.48%
Per Capita Income	\$24,418	\$18,696	\$26,698

are performing better than the Northshore area of Chicago, directly North of their Downtown.

That downtowns in Kansas City and St. Louis are adding jobs as fast or faster than downtown Chicago seems significant given that Missouri's largest cities have been shedding jobs and residents as Chicago has sustained a reasonable level of growth over the past several decades. Looking at St. Louis and Kansas City individually, it is also worthwhile to note that areas in each of those jurisdictions which added fewer jobs than expected tend to be those areas receiving little in the way of HPTC.

**Figure 6. Three-year Moving Average of Year-over-year Change in Total Employment and Total HPTC Issued in St. Louis City and Jackson County versus Cook County**







# “But for” the HPTC . . .

In order to understand the underlying logic behind the developer decision to use HPTC we developed a series of case studies that examined the details of individual projects throughout the state. The goal for these case studies was to understand the nature of the ‘but for’ element of the tax credit tool, to identify whether the HPTC program was essential for project success and if so, what sort of outcomes were there that might be associated with the project. The cases were developed using a series of confidential interviews of individuals involved in the case study projects from both the private and public sector. This material was supplemented by an economic impact analysis of the sample cases for each cluster to assess their relative impact on the state economy.

The economic impact of a business, organization, or event is a measure of the amount of, and the way that, dollars associated with that entity circulate through the region. The estimates presented in this section of the report were developed with a computer model called IMPLAN, which stores a profile of the Missouri economy in a database. The model uses production functions for each industry in the region to calculate how spending in one industry circulates through other industries in Missouri. This economic impact can be expressed either as an annual flow of dollars (output), or an equivalent number of employees.

There are three levels of impact that we considered when we developed these figures: the direct impact, the indirect business spending impact, and the induced household spending impact. All three of these are expressed in terms of an annual flow of dollars (output) or annual jobs. The total impact is the sum of these three factors.

## Direct Impact

This is the most basic part of an organization’s economic impact. It measures the dollars and jobs that the organization directly generates. When expressed in dollars, the direct impact is an

approximation of a company’s output. Alternatively, the direct impact is the average annual value of output associated with the given number of jobs in that industry.

## Indirect Impact

This is a secondary measure of a business’s economic impact. It represents the dollars and jobs generated by the operating expenses of the organization. Examples might be purchase of raw materials from a local supplier or the professional services of an accounting or law firm. This spending generates revenue and employment at firms that supply those goods or services. Every dollar that an organization spends locally to conduct its business supports another business in some way.

## Induced Impact

This is a tertiary measure of a business’ economic impact. It is a measure of the business revenue generated by the personal spending of the organization’s employees. This gets translated as peripheral spending at places like the local grocery store. The employee’s paychecks support revenue and jobs in the same way that the organization’s spending on equipment supports revenue and jobs.

## Case Study Selection

In order to ensure that our case study analysis was cross-sectional, we used a standard cluster analysis to stratify the HPTC projects into six relatively homogeneous categories. Projects were assigned to one of six clusters based on the total amount of tax credits issued to the project and five indicators of neighborhood composition, including the following: percent of population living in urbanized versus rural areas, median household income, percent of occupied housing units that were built before 1940, total number of business establishments, and total number of workers. All indicators were reported by ZIP Code Tabulation Areas for the year 2000, the year that our overall analysis begins, and extracted from the Missouri Census Data Center and US Census County Business Patterns websites. From each category or “cluster” we semi-randomly selected a minimum of



two projects that represented both residential and commercial redevelopment and a general sense of the individual projects' representativeness of its cluster. In presenting analyses of two to three projects from each category we feel that we have represented the entire distribution of HPTC projects throughout Missouri in terms of geography, size, and scope. The following is a general description of the six clusters.

**1. Small-town/urban** – This cluster has a lower residential population and greater number of jobs with a moderate number of employers and moderate amount of tax credits issued.

**2. Big City Central Business District** – This cluster occurs only in the downtowns of St. Louis and Kansas City, has 100% urban population, many jobs, many employers, and the highest amounts of tax credits issued on average.

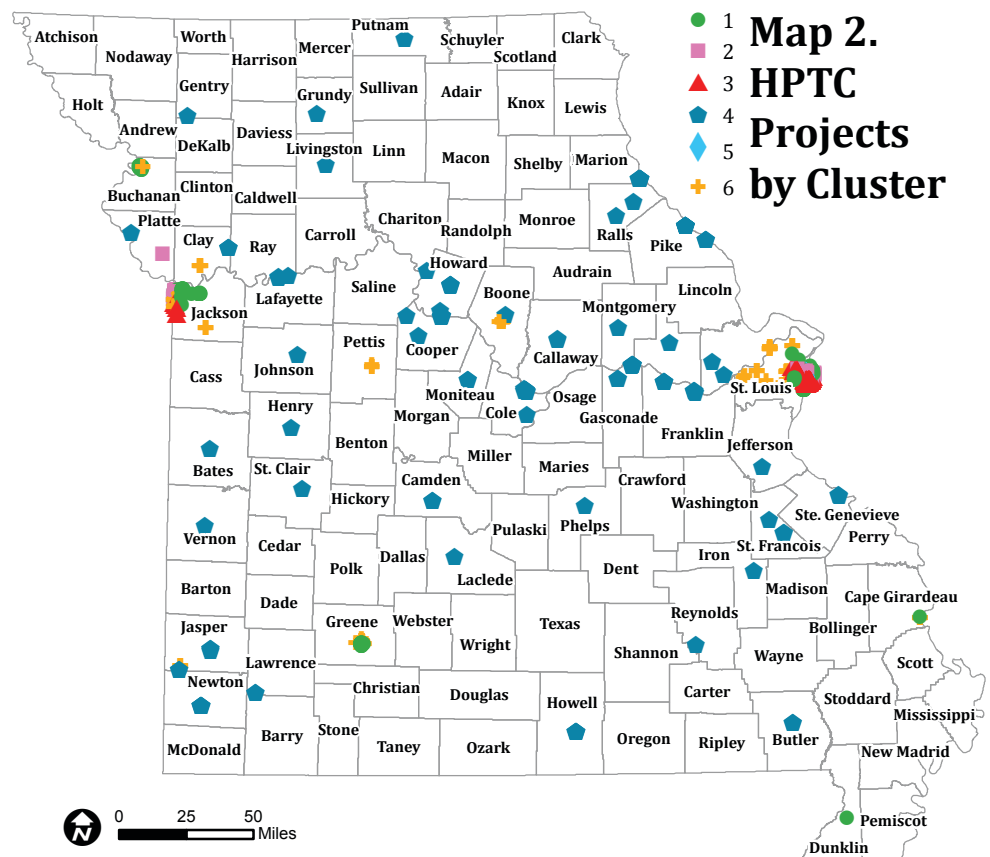
**3. Historic Urban Neighborhood** – This cluster has projects that are found generally in South St. Louis around the Benton Park Historic District as well as St. Louis' Central Corridor and Southeast Kansas City. These projects are characterized by low tax credit amounts and neighborhoods with the highest numbers of building built before 1940 and the lowest numbers of businesses.

**4. Rural and small town landmarks** – Projects in this cluster received relatively small tax credit amounts and are usually in ZIP codes with very few residences built before 1940. There are typically few jobs and businesses in these areas.

**5. Revitalized Neighborhood --** Projects in this cluster are almost exclusively located in either the St. Louis Forest Park Southeast, Shaw, or Soulard neighborhoods. These are among the lower-cost projects in terms of tax credits issued and in an area that is second only to Cluster 2 in average number of jobs and businesses and has the lowest median household income. What makes the cluster unique is the level of investment and overall impact versus household income. These were previously declining neighborhoods that had strong tax credit induced investment.

**6. Suburban Landmarks** – This cluster includes tax credit projects that are located in what used to be outlying rural areas but have become the suburbs of nearby Metro areas. These areas have the highest median incomes; moderate numbers of jobs, employers, and residences built before 1940; a relatively high percentage of rural populations mixed in with urban; and are near the biggest receivers of tax credits on a per-project basis.

Clusters 1 through 3 represent variations of projects found primarily in downtown, midtown, or central city locations in either Kansas City or St. Louis. Clusters 4 and 6 represent small and mid-sized communities throughout the state. Finally, Cluster 5 uniquely represents a set of neighborhood preservation projects found only in St. Louis that many have argued demonstrate how historic preservation can stabilize neighborhoods as many of these projects are found in locations where previously high rates of crime and overall neighborhood distress occurred. Map 2 below shows a distribution of the different clusters across the state.



## Cluster 1 -- Small-town/urban

In Cluster 1 the average tax credit issued was \$291,710 and in 2000 was almost exclusively urban in nature, as defined by the US Census. Each zip code averaged 6,221 employees, 335 business establishments and 3,306 buildings built before 1940. The median household income for the cluster was \$20,497. While many of the projects in this cluster are located in both Kansas City and St. Louis, a number of projects are also located in cities such as St. Joseph.

Projects in this cluster have a range of impact on the state economy. The Western Union Telegraph project in Kansas City typifies the sort of mixed use project in a mostly urban environment. Such projects appear to have a fairly sizable impact on the statewide economy. Most likely the project in St. Joseph did not create the level of permanent jobs that the project in Kansas City did due to the residential scope of the project but it is worth noting that such projects are also fairly common in this cluster and even with the smaller size of impact, the labor income exceeded the \$22,200 average cost per job that our model estimated for the HPTC.

### THE LOFTS @ 415

Historic Name: Noyes Norman Shoe Company Building  
Location: 415 N. 3rd St., St. Joseph  
Tax Credit Amount Issued: \$1,152,247

The Noyes Norman Shoe Company Building originally housed a shoe factory but later became an abandoned, empty warehouse. In early 2004, construction started on the conversion of the space to 46 market-rate apartments. Construction was completed by the end of the year. Without the use of the historic

preservation tax credit program and local tax abatement, the building would remain abandoned. Both programs were cited as required to make the project financially feasible.

Downtown redevelopment in Saint Joseph started with historic preservation tax credit projects by a short list of developers. The greatest impact this and other early projects had on the area was showing other developers that historic redevelopment could be successful in downtown Saint Joseph. Since the completion of this project, many times more redevelopment projects have occurred in the area, and this development activity has had a positive cumulative impact on the surrounding area. Historic preservation tax credit projects were described as catalysts for job creation and economic growth in the community. Due to the residential end-use of this particular project, permanent jobs directly associated with the site include a part-time property manager and a part-time maintenance employee.

The project's greater job impact came in the form of the temporary construction jobs that were created during the rehabilitation of this building. Subsequent projects have continued to provide demand for construction in the area. The increase in downtown residential population has also created incremental increases in the work required in industries related to real estate development and construction such as realtors, appraisers, and suppliers.

The city had an important role in the success of the project. It was instrumental in helping the project receive approval of local tax abatement, was helpful with building codes, and later took a proactive role in marketing the property. The success of early projects gave the city confidence to make city-backed loans for new development available.

### Estimated Operational Economic Impact of The Lofts @ 415 on Missouri

	Direct	Indirect	Induced	Total
<b>Jobs</b>	1.0	0.3	0.2	1.5
<b>Total Value Added</b>	\$56,877	\$16,761	\$16,887	\$90,525
<b>Labor Income</b>	\$21,229	\$10,221	\$9,244	\$40,694
<b>Output</b>	\$89,815	\$29,487	\$29,000	\$148,302

## WESTERN UNION BUILDING

Historic Name: Western Union Telegraph Building  
Location: 100 E. 7th St. Kansas City  
Tax Credit Amount Issued: \$832,509

The Western Union Building originally operated as a primary location for Western Union Telegraph's telegraph wire switching functions serving a five state region in the Midwest. In the 1950s the company expanded the building's operations to include nationwide and international telecommunication functions as Western Union came to dominate the industry. The company operated in that location well into 1970s until the building became functionally obsolete as the rapid changes in the telecommunications industry forced the company to move operations.

tax credits, coupled with tax increment financing in an effort to redevelop the site as a mixed use commercial building. The \$4.5 million project resulted in attracting 2 new restaurants and an advertising firm to the downtown location. The availability of tax credits provided the equity needed as a down payment for the project financing, providing access to needed capital. The project would not have moved forward without the state historic preservation tax credit program.

In 2002 Watkins & Co. applied for historic preservation

### Estimated Operational Economic Impact of Western Union Building on Missouri

	Direct	Indirect	Induced	Total
<b>Jobs</b>	194.0	109.7	115.3	419.0
<b>Total Value Added</b>	\$11,321,771	\$5,944,198	\$7,887,644	\$25,153,613
<b>Labor Income</b>	\$10,862,564	\$3,932,082	\$4,318,001	\$19,112,647
<b>Output</b>	\$23,584,988	\$10,659,103	\$13,545,621	\$47,789,712

## Cluster 2 -- Big City Central Business District

In Cluster 2 the average tax credit issued was \$2,715,600 and like Cluster 1 in 2000 was almost exclusively urban in nature. Yet unlike Cluster 1, each zip code averaged 29,541 employees, 768 business establishments and only 1,046 buildings built before 1940. The median household income for the cluster was \$23,921. The projects in this cluster are located exclusively in either Kansas City or St. Louis, in the core downtown areas where there are high concentrations of employees and businesses but lower concentrations of residential population. The projects in this cluster tend toward larger scale, multiple use projects that layer development incentives to stimulate job creation and broader economic development.

The economic impacts associated with the projects in Cluster 2 have a much more sizeable effect, much of this due to the more commercial nature of the end uses. Note that even with the smaller number of jobs associated with the National Archives project that the associated impact for this project on the state economy far exceeds the cost of the state investment.

### THE WESTIN AT CUPPLES STATION

Historic Name: Cupples Station  
Location: 811 Olive St. St. Louis  
Tax Credit Amount Issued: \$1,853,943

Built in 1894, Cupples Station served as a national

freight depot serving as the primary mid-continental transshipment point for commerce in the US. Part of an original 20 building block, by 1971, only 10 remained as half of the warehousing facilities were demolished to make way for Busch Stadium. The rest remained vacant until 1998 when the plan was announced to redevelop the four remaining blocks into a series of residential, commercial, and office spaces. The first stage of this project, The Westin at Cupples Station, included a 257 room hotel, spa and conference center, 400,000 sq. ft. in class A office space, restaurants, banking and other retail services and a parking garage. They applied for historic preservation tax credits in 2003, using the credits as equity to secure financing for the remainder of the \$59 million in project costs. All who were interviewed for the project agreed that it would not have moved forward without the initial investment made by the State of Missouri through the Historic Preservation Tax Credit Program.

The City development agency credits the historic preservation tax credit program with the dramatic turnaround in downtown St. Louis. Without the equity opportunity the city would not have been able to attract enough developer interest to move projects forward to generate further developer interest. The redevelopment of historic buildings is extremely cost prohibitive even when there is a market. The tax credit program helps level the playing field.

### Estimated Operational Economic Impact of The Westin at Cupples Station on Missouri

	Direct	Indirect	Induced	Total
Jobs	150.0	28.8	39.7	218.5
Total Value Added	\$7,980,303	\$2,433,028	\$3,102,179	\$13,515,510
Labor Income	\$4,519,508	\$1,537,745	\$1,698,260	\$7,755,513
Output	\$12,719,408	\$4,508,302	\$5,327,443	\$22,555,153

NATIONAL ARCHIVES

Historic Name: Adams Express Building  
Location: 38 W. Pershing Rd.,  
Kansas City  
Tax Credit Amount Issued: \$1,609,344

The Adams Express Building, built at the turn of the 20th century, served as a major railroad station and depot for the exchange of goods, handling money transfers, mail distribution, grain storage, livestock trade, dry goods shipment and produce marketing throughout the Midwest. The project partners came together in 2007 and applied for historic preservation tax credits to provide equity funding for the more than \$10 million in total project costs. The intended use for the building was a state-of-the-art office space that would eventually house the US National Archives and museum. The project became part of a broader revitalization effort adjacent to the downtown Kansas City Power and Light district.

The tax credits were an integral part of the project. The project partners all agreed that without this development tool the project would not have been economically feasible. Older buildings have many attractive features yet considerable aging infrastructure that requires costly upgrades. Additionally, building functionality is often outdated. The historic preservation tax credit program provided the needed equity to make the project work, economically.

The city uses the tax credit program to keep the urban real estate market competitive with the surrounding suburbs. Vacant buildings often require considerable additional resources to renovate for a future use yet are often more desirable than new construction as they offer a sense of character and place. Further, rehabbing existing buildings reduces regional fiscal stress by concentrating limited public resources along existing public infrastructure lines. New construction in outlying areas often requires the development of new public infrastructure many times in areas where existing fiscal stress can least afford to extend new public infrastructure lines.

Estimated Operational Economic Impact of the National Archives on Missouri

	Direct	Indirect	Induced	Total
Jobs	20.5	31.8	28.6	80.9
Total Value Added	\$3,334,015	\$1,888,119	\$1,919,612	\$7,141,746
Labor Income	\$2,332,392	\$1,265,702	\$1,050,869	\$4,648,963
Output	\$7,663,634	\$3,491,582	\$3,296,590	\$14,451,806



# Cluster 3 -- Historic Urban Neighborhood

In Cluster 3 the average tax credit issued was \$174,570 and in 2000 was entirely urban in nature. Each zip code averaged 14,664 employees, 563 business establishments and 7,840 buildings built before 1940. The median household income for the cluster was \$28,063. The projects in this cluster are located entirely in the St. Louis metropolitan area, with all but a fraction of the projects located in the historic urban neighborhoods of the City of St. Louis. The projects in this cluster tend toward higher end residential with some commercial projects that support these residential neighborhoods. Again, the commercial projects are larger scale, multiple use that layer development incentives to stimulate job creation and broader economic development while supporting the historic neighborhood.

Impacts associated with these projects reflect the nature of their location in more full-service urban neighborhoods. These projects often serve as primary catalysts for their respective neighborhoods and the estimated economic impacts these profiled projects had on the state bear that out. Again, as with the projects in the previous clusters, the state tax credit investment appears to have yielded considerable positive economic impact for the state.

## CHASE PARK PLAZA

Historic Name: Chase Park Plaza  
Location: 232 N. Kingshighway  
Blvd., St. Louis  
Tax Credit Amount Issued: \$9,972,758

The Chase Park Plaza Hotel project was one of the first projects in the state to receive historic preservation



tax credits. Originally built in 1922 as an elegant hotel, replete with marble floors and grand ballrooms, the Chase Hotel with its Chase Club, was a well-known stop over for popular big band acts like Bob Hope and Dean Martin in the 1950s. The Park Plaza started as a separate project of the original owner, eventually to become an exclusive apartment complex. The Chase hotel continued operations into the 1980s when the original owner sold the building, at which point the hotel fell into disrepair. By 1991, the property was a common hangout for vagrants and homeless individuals.

In 1997, a group of investors purchased the property and applied for the newly available state historic preservation tax credits to help fund the \$250 million renovation project. This first phase of the project included the hotel renovation, 5 restaurants, a 5 screen movie complex, fitness center, and salon and day spa. The historic preservation tax credit program was the catalyst for this project. It would not have happened otherwise.

### Estimated Operational Economic Impact of The Chase Park Plaze on Missouri Economy

	Direct	Indirect	Induced	Total
Jobs	420.0	80.6	111.0	611.6
Total Value Added	\$23,993,846	\$7,315,226	\$9,327,115	\$40,636,187
Labor Income	\$13,588,504	\$4,623,435	\$5,106,045	\$23,317,984
Output	\$38,242,600	\$13,554,816	\$16,017,672	\$67,815,088

CORONADO PLACE

Historic Name: Coronado Hotel  
Location: 3701 Lindell Blvd.,  
St. Louis  
Tax Credit Amount Issued: \$634,489

The Coronado Hotel was built in 1925 to be one of St. Louis’ finest hotels. A location that also included apartments, the Coronado regularly hosted such luminaries as Charles Lindberg, Rudolph Valentino, and President Harry S. Truman. The Hotel closed in the 1980s and remained vacant until 2003 when developers applied for historic preservation tax credits to renovate the structure into a residential, retail, and office complex across from the Saint Louis University campus. The \$43.5 million project was additionally supported by the state brownfield tax credit program to address contamination issues that were present on the site.

Since completion of the Coronado

Hotel several other nearby projects have come on line. These include a mixed use project, the Moolah Theater, with residential spaces and a single screen boutique movie theater and bowling alley. Additionally, a block of new construction mixed use residential and commercial was recently completed further west on Lindell Blvd. Clear indications from those interviewed were that the Coronado project served as the catalyst for the additional development in the area.



Estimated Operational Economic Impact of the Coronado on Missouri Economy

	Direct	Indirect	Induced	Total
Jobs	103.0	19.4	18.8	141.2
Total Value Added	\$2,428,174	\$1,259,398	\$1,284,669	\$4,972,241
Labor Income	\$1,718,784	\$731,388	\$703,281	\$3,153,453
Output	\$5,347,104	\$2,787,446	\$2,206,192	\$10,340,742

Cluster 4 -- Rural and small town landmarks

In Cluster 4 the average tax credit issued was \$251,900 and in 2000 was approximately 53% urban in nature. Each zip code averaged 6,539 employees, 407 business establishments and 1,196 buildings built before 1940. The median household income for the cluster was \$35,306. The projects in this cluster are located entirely outside the major metropolitan areas of the state. The projects in this cluster are generally smaller but range from residential to commercial with many multiple use projects that layer development incentives to stimulate job creation and broader economic development.

Even for the projects that generated few jobs, there appeared to be an economic driver cycling the effects of the project throughout the statewide economy. These projects represent those found outside any major metropolitan area and even in these smaller communities the HPTC program benefits appear to exceed the cost. The value added and overall economic output do not tend to be as large but there is a positive economic impact that can be associated with these projects.

PARKLAND SENIOR HOUSING

Historic Name: Presbyterian Orphanage of Missouri  
Location: 412 W. Liberty St., Farmington  
Tax Credit Amount Issued: \$1,048,439

The Parkland Senior Housing project provides affordable housing to 40-45 senior citizens. This historic preservation project involved the adaptive re-

use of multiple buildings in 41 housing units and was completed in 2008. Since its completion, it has been described as “the place to live” for this demographic in Farmington.

The project would not have been possible without the use of historic preservation tax credits. Additional incentives were also required and included federal and state low-income housing tax credits, community development block grant funds from the city of Farmington, and federal historic preservation tax credits. Each was a vital component to making the project possible.

The senior housing development is located in a neighborhood adjacent to downtown and was not in a blighted condition. Leading up to and following the project, many residential renovations have taken place and indicate that the neighborhood is actively working to maintain or improve the condition of its housing stock. The Parkland Senior Housing project holds to and furthers this community value.

Estimated Operational Economic Impact of Parkland Senior Housing on Missouri

	Direct	Indirect	Induced	Total
Jobs	2.0	.05	.05	3.0
Total Value Added	\$2,428,174	\$1,259,398	\$1,284,669	\$4,972,241
Labor Income	\$1,718,784	\$731,388	\$703,281	\$3,153,453
Output	\$5,347,104	\$2,787,446	\$2,206,192	\$10,340,742



## PALACE HOTEL OFFICE BUILDING

Historic Name: Palace Hotel  
Location: 2-4 W. Ohio, Butler  
Tax Credit Amount Issued: \$794,326

The renovation of the Palace Hotel building on Butler's city square was made possible using historic preservation tax credits and a local tax abatement. The use of these tax credits and incentives were required in order to make the redevelopment project financially possible. The building now provides office space for an estimated 20 employees working for the State of Missouri. The second floor of the building, once occupied and providing office space for an additional estimated 15 office workers, is now vacant.

The estimated construction cost of the project was \$1.5 million. Since the completion of this project, several other property owners have made improvements to their buildings in the form of exterior repairs and painting. The redevelopment of this abandoned building serviced as a catalyst for area improvements and improved property values surrounding the courthouse.

### Estimated Operational Economic Impact of the Palace Hotel Office Building on Missouri

	Direct	Indirect	Induced	Total
<b>Jobs</b>	35.0	21.9	23.1	80.0
<b>Total Value Added</b>	\$2,016,490	\$1,059,460	\$1,425,221	\$4,501,171
<b>Labor Income</b>	\$1,965,211	\$705,967	\$780,221	\$3,451,399
<b>Output</b>	\$4,185,891	\$1,872,829	\$2,447,563	\$8,506,283

## NEOSHO HISTORIC OFFICE BUILDING

Historic Name: Haas Wholesale Grocery  
Location: 201 N. Washington, Neosho  
Tax Credit Amount Issued: \$1,048,439

This historic Haas Wholesale Grocery building, built in 1898, was renovated in 2003 and provides 30,000 square feet of class "A" office space in downtown Neosho. This project would not have been possible without the use of historic preservation tax credits, local tax abatement, federal historic preservation tax credits, and brownfield tax credits to remove asbestos and lead-based paint. This project and related municipal and county projects resulted in a major improvement

for the downtown area and served as a catalyst for continued development in the downtown area.

At the same time as the renovation of the office building, the city of Neosho was able to obtain a block grant with matching private funds in order to upgrade storm drainage in the area. This addressed a recurring problem. Community development block grant dollars were used by Newton County to demolish a condemned mill building and make infrastructure improvements in order to facilitate further downtown redevelopment. Since this time, similar historic preservation projects have been completed in the downtown area.

### Estimated Operational Economic Impact of the Neosho Historic Office Building on Missouri

	Direct	Indirect	Induced	Total
<b>Jobs</b>	32.0	20.0	21.2	73.2
<b>Total Value Added</b>	\$1,843,649	\$968,649	\$1,303,059	\$4,115,357
<b>Labor Income</b>	\$1,796,764	\$645,456	\$713,345	\$3,155,565
<b>Output</b>	\$3,827,100	\$1,712,301	\$2,237,772	\$7,777,173

## Cluster 5 -- Revitalized Neighborhood

In Cluster 5 the average tax credit issued was \$73,521 and in 2000 was 100% urban in nature. Each zip code averaged 31,665 employees, 763 business establishments and 6,442 buildings built before 1940. The median household income for the cluster was \$28,604. The projects in this cluster are located entirely in the city of St. Louis in neighborhoods that until recently were considered in various stages of distress indicated by high crime, poverty and vacancy rates. The projects in this cluster are among the smallest and are generally residential in nature. Analyzing impact in this cluster is more challenging given that there are no landmark projects to profile.

The typical project involved the rehabilitation of a single family home. What stands out as unique about this cluster is how that rehab work has transformed a handful of neighborhoods in the city of St. Louis. These were neighborhoods that 10 years ago only urban pioneers would invest resources or time. The historic preservation tax credit program provided the opportunity and leverage for a set of interested developers to invest considerable funds over the past 10 years and the change has been dramatic. Consider the Forest Park Southeast neighborhood.

In 2000, the neighborhood had the following statistics:

- 48% Vacancy rate
- \$56,316 Median housing value
- 65% of the housing stock is rental
- \$25,351 Median household income

In 2008, after considerable developer investment consider those same statistics:

- 21% Vacancy rate
- \$93,723 Median housing value
- 63% of the housing stock is rental
- \$37,758 Median household income

Developers involved in projects indicated that once the market came back in these neighborhoods, they took risks with investing in new construction infill projects. They all agreed that they never would have considered this sort of investment without the tax credit program. The tax credits allowed them to leverage equity they otherwise did not have in these risky neighborhoods. The historic preservation tax credit program created the catalyst for development activity serving two purposes. It created a market where one previously did not exist and it stabilized neighborhoods. From fiscal investment perspective, this case demonstrates strong public benefit from minimal public investment.

## Cluster 6 -- Suburban Landmarks

In Cluster 6 the average tax credit issued was \$333,960 and in 2000 was approximately 96% urban in nature. Each zip code averaged 21,710 employees, 1,172 business establishments and 2,670 buildings built before 1940. The median household income for the cluster was \$43,652. The projects in this cluster are located around the state in more suburban areas and smaller metropolitan regions and include both residential and commercial type projects.

These projects are all exceeding what we've determined to be the per job cost for the HPTC program. These projects also profile efforts found outside the two major metropolitan areas and again, demonstrate the contributing effects of such projects to the state-wide economy.

### MARQUETTE TOWER OFFICE BUILDING

Historic Name:	Marquette Hotel
Location:	338 Broadway St., Cape Girardeau
Tax Credit Amount Issued:	\$3,258,906

The adaptive-reuse and historic renovation of the Marquette Hotel into offices for the State of Missouri and private firms would not have occurred without the use of historic preservation tax credits. Addition-

ally, brownfield tax credits to remove asbestos and lead-based paint and a local 25-year tax abatement were required to make the project financially feasible. Since the renovation of this project, a neighboring building conducted a remodeling project to improve its appearance. Other indirectly-related improvement projects have also occurred in the surrounding area.

#### **Estimated Operational Economic Impact of the Marquette Tower Office Building on Missouri**

	<b>Direct</b>	<b>Indirect</b>	<b>Induced</b>	<b>Total</b>
<b>Jobs</b>	66.0	38.7	40.7	145.4
<b>Total Value Added</b>	\$3,637,404	\$1,910,054	\$2,543,051	\$8,090,509
<b>Labor Income</b>	\$3,503,269	\$1,265,754	\$1,392,164	\$6,161,187
<b>Output</b>	\$7,570,785	\$3,413,247	\$4,367,236	\$15,351,268

#### **MAIN STREET PLACE LOFTS**

Historic Name: Christman's Department Store  
 Location: 501 South Main Street, Joplin  
 Tax Credit Amount Issued: \$1,036,828

The full economic impact of the historic redevelopment of this project will be realized when the first floor commercial space is completed. Currently, three living-wage service and property management jobs are directly associated with this project and serve the residential population of the building.

The first phase of the redevelopment of the historic Christman's Department Store as Main Street Place Lofts in Joplin was completed in December of 2008. The second through fifth floors of the building are home to 46 for-rent lofts or for-sale condos. Future phases call for retail and offices on the first floor of the building.

This project contributed to improvement of the downtown district in Joplin which consists of several square blocks. Since this project started, other developments of a similar type have begun. Both this project and other related historic preservation tax credit projects in Joplin have contributed to the redevelopment of the downtown.

Historic preservation tax credits were essential to the redevelopment of this building. Additional tax credits and incentives were also required to make the project financially feasible and include brownfield voluntary cleanup program, federal historic tax credits, and local property tax abatements.

#### **Estimated Operational Economic Impact of the Main Street Place Lofts on Missouri**

	<b>Direct</b>	<b>Indirect</b>	<b>Induced</b>	<b>Total</b>
<b>Jobs</b>	3.0	0.8	0.7	4.5
<b>Total Value Added</b>	\$130,997	\$44,184	\$46,671	\$221,852
<b>Labor Income</b>	\$59,759	\$27,325	\$25,550	\$112,634
<b>Output</b>	\$219,181	\$77,955	\$80,149	\$377,285

ENGINEERED PACKAGING, INC BUILDING

Historic Name: J. E. King Manufacturing Company Building  
Location: 1350 St. Louis Street, Springfield  
Tax Credit Amount Issued: \$246,292

In the summer of 2003, Engineered Packaging, Inc was in the process of looking for a new building when their existing plant was damaged by a fire. A decision on where to relocate needed to happen within a very tight schedule. The company had already been looking at locations within the city of Springfield as many of its manufacturing employees were dependent upon public transportation. The company purchased their new building for \$240,000 and spent over \$1,000,000 in renovations using insurance dollars. During this time, the company applied for historic preservation tax credits.

Unlike most other projects, this project was financially feasible without the use of historic preservation tax credits due to the availability of funds from the company’s fire insurance policy. In fact, company

leadership had to make the decision to purchase and renovate the building prior to knowing whether the building would qualify under the program; however, had it not been for these unique circumstances, the historic preservation tax credit would have been needed to fund the project. This project is located within an enterprise zone which reduces the company’s real estate tax liability.

Historic preservation tax credits were seen as a catalyst for neighborhood improvement and job creation in the immediately surrounding area and the community as a whole. The area surrounding the project was considered blighted prior to the move, but general maintenance and upkeep of surrounding areas has improved since the completion of the project. Additionally, a few small office renovations have occurred in the immediate area. Separately, the community in general has benefited from other historic preservation tax credit projects. In the nearby downtown district, other development projects have been completed which have added more jobs to the downtown.

Estimated Operational Economic Impact of Engineered Packaging on Missouri - Jobs Created

	Direct	Indirect	Induced	Total
Jobs	45.0	91.1	74.4	210.5
Total Value Added	\$9,377,580	\$8,105,835	\$5,092,344	\$22,575,759
Labor Income	\$4,524,724	\$5,143,847	\$2,787,756	\$12,456,327
Output	\$66,279,832	\$19,466,694	\$8,745,193	\$94,491,719

Estimated Operational Economic Impact of Engineered Packaging on Missouri - Jobs Retained

	Direct	Indirect	Induced	Total
Jobs	30.0	60.7	49.6	140.3
Total Value Added	\$2,578,426	\$1,337,325	\$1,364,275	\$5,280,026
Labor Income	\$1,796,764	\$645,456	\$713,345	\$3,155,565
Output	\$5,677,783	\$2,959,596	\$2,342,901	\$10,980,280



## Conclusions from Case Study Interviews

The cluster analysis of how the HPTC program is used across the state revealed that different locations use the program in different ways but all finding the tool essential in getting these projects started. Two primary lessons stand out:

- The Historic Preservation Tax Credit Program was the essential development tool in each of the case study projects. With the exception of the Engineered Packaging Case, without the program these projects would not have been possible. It made these historic renovations economically feasible. In the case of Engineered Packaging, the HPTC made it possible for the company to expand operations and add 45 new jobs.
- The Historic Preservation Tax Credit Program pays for itself in economic impacts to the state. According to our calculations, each job created directly by the program cost the state approximately \$22,200 but based in the economic impact analysis of these case study projects, each project individually more than covers that cost in economic output to the state.

The overriding opinion among those surveyed for the case studies was that the HPTC program offers an additional equity benefit that helps the developer write down the risk and allows them to gain access to needed funds early on in the development process. This early access to capital is what allows up-front investment to occur and spurs development in otherwise risky sectors of the state economy. Banks view the tax credits as equity allowing the developers to leverage them and qualify for a more favorable risk rating when borrowing funds. This more favorable rating reduces the overall cost of borrowing thereby reducing the debt coverage ratio within the developer's proforma and increasing the overall likelihood for project success.

As more developers produce more successful projects using the program, this stimulates the market for other infill, often new construction projects that do not use the program, demonstrating the market priming intention of the Historic Preservation Tax Credit program.



# HPTC's Impact on Missouri

The state has received an estimated \$161,974,950 in sales/use tax revenue and \$394,802,307 in income taxes from economic activity associated with the HPTC program since 2000 for an estimated total of \$669,872,192. Since a job created can be presumed to last longer than the year of the initial HPTC investment, growth in HPTC-related revenue is almost exponential, as Figure 7 below shows. It is important to note that this represents sales/use and income taxes only. The state collects other special business taxes which we are not accounting for here.

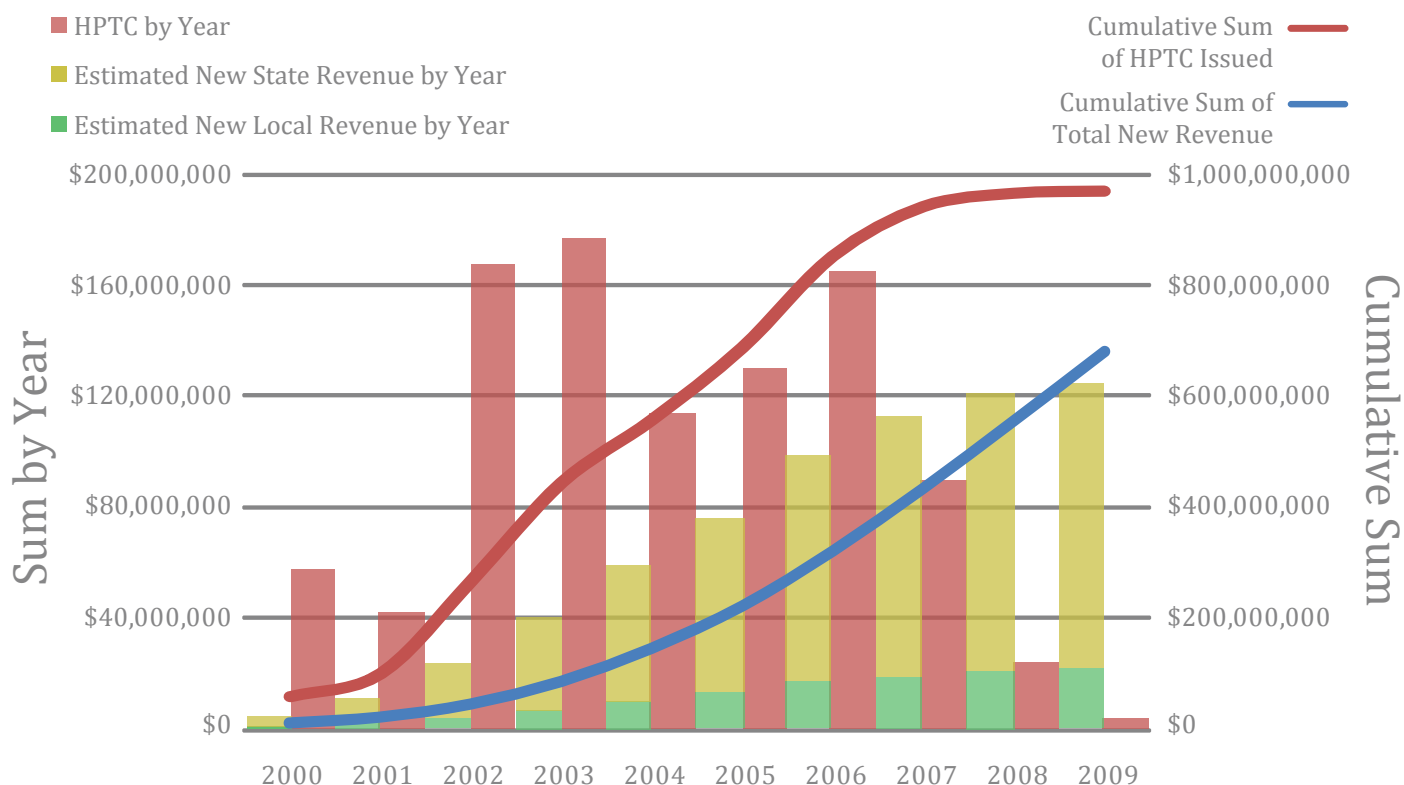
Due to new job growth and economic activity spurred by the Missouri HPTC program, counties and local governments have benefitted as well. Assuming a 2.95% average local sales tax rate, the HPTC program can be associated with \$113,094,935 in new local sales tax revenue. Assuming a 1% earnings tax rate in Kansas City and St. Louis plus an additional 0.5% payroll tax in St. Louis, the two municipalities received a total of \$75,214,832 in new earnings tax revenue associated with HPTC projects. However, these calculations do not take into account increased property tax collections. But they also do not take into account Tax Increment

Financing or other property tax abatement programs which might divert some of this revenue for a time. Therefore, these figures should only be considered a rough estimate of increased revenue to local and county governments.

Missouri is experiencing job growth in a number of key industries. Table 2 ranks these industries by the difference between growth in counties which have experienced HPTC investment and growth in Illinois and Missouri counties which have not. HPTC counties outpace non-HPTC counties in all industries with an average annual salary over \$45,000 except for one. Across-the-board declines in Information industry jobs likely reflect the fallout of the tech bubble's burst and the recession of the early 2000s. HPTC counties saw the Construction industry grow as it shrank in all others. In HPTC counties, these jobs have an average annual salary of over \$48,000, which may point to the highly-skilled trades involved in historic rehabilitation projects. Faster growth in Management; Finance and Insurance; and Professional, Scientific, and Technical Services are also encouraging, given the high salaries associated with each.

Although Manufacturing declines in all counties, the decline was less drastic in HPTC counties. Given nationwide declines in Manufacturing jobs, the relatively smaller decrease seems significant, although not

**Figure 7. HPTC and New Sales/Use & Income Tax Revenue, 2000-2009**



necessarily explained by our research. With the exception of Information, and possibly Health Care and Social Services, the industries in which HPTC counties post slower growth tend to be lower-wage jobs. Slower growth in Accommodation and Food Service and Retail Trade likely point to the fact that a large portion of job growth in booming newly-developed counties on metropolitan fringes and in rural areas tend to be those in the service sector, catering to either new exurban residents or retirees in amenity-based locales.

More insight into these trends can be gained from Table 1, which shows total job growth by industry in Missouri only, and the proportion of that growth which has taken place in counties having seen HPTC developments. The tables show that the majority of high-growth industries are growing in counties which have used the HPTC. Over 90% of net new jobs in Professional, Scientific, and Technical Services; Management; Educational Services; and Real Estate since 2000 can be found in HPTC counties. Again, large net decreases in Information are troubling, but since growth in non-HPTC counties is so modest, it seems unlikely that this

**Table 2. High-growth Industries in Missouri and Proportion of New Jobs in Each Which Have Been Created in Counties That Have Used HPTC, 2000-2007**

	Missouri Total	HPTC	MO No HPTC	% of Change in HPTC Counties
Health Care & Social Services	36,009	27,534	8,475	76.46%
Accommodation & Food Service	32,323	27,701	4,622	85.70%
Professional, Scientific, & Technical Services	24,092	22,326	1,766	92.67%
Management	13,531	12,652	879	93.50%
Educational Services	9,162	9,124	38	99.59%
Finance & Insurance	6,590	4,847	1,743	73.55%
Real Estate & Rental & Leasing	5,996	5,741	255	95.75%
Construction	5,839	5,037	802	86.26%
Retail Trade	5,163	1,484	3,679	28.74%
Arts, Entertainment, & Recreation	3,529	1,463	2,066	41.46%
Administrative & Support & Waste Management & Remediation Services	3,241	133	3,108	4.10%
Transportation & Warehousing	2,794	-684	3,478	-
Information	-16,301	-16,959	658	104.04%
Manufacturing	-43,935	-35,190	-8,745	80.10%

points to any major shift other than the tech-bubble fallout. Transportation and Warehousing jobs are also worth noting. The net decrease in HPTC counties and large increase in non-HPTC counties seems indicative of a national shift toward truck-based freight and rural logistics centers far from metropolitan areas, as opposed to historically high use of rail and barge transportation, which would be more likely to take place in cities and towns.

**Table 1. Change in Total Jobs by Industry in Counties Containing HPTC Projects Compared to Missouri and Illinois Counties Which Have Not, 2000-2007**

	HPTC	No HPTC	Difference	Average Pay in HPTC Counties
Management	21.97%	4.08%	17.89%	\$91,512
Real Estate & Rental & Leasing	17.83%	3.74%	14.09%	\$33,023
Manufacturing	-12.52%	-23.09%	10.57%	\$46,589
Construction	4.04%	-4.45%	8.49%	\$48,269
Professional, Scientific, & Technical Services	19.84%	11.86%	7.98%	\$53,564
Administrative & Support & Waste Management & Remediation Services	0.09%	-3.19%	3.28%	\$25,022
Finance & Insurance	4.03%	2.45%	1.58%	\$56,724
Arts, Entertainment, & Recreation	5.03%	4.02%	1.01%	\$34,851
Educational Services	16.42%	16.20%	0.22%	\$30,921
Accommodation & Food Service	15.10%	15.66%	-0.56%	\$13,157
Health Care & Social Services	9.63%	12.11%	-2.48%	\$37,299
Retail Trade	0.56%	4.92%	-4.36%	\$22,755
Transportation & Warehousing	-0.88%	8.90%	-9.77%	\$37,044
Information	-21.85%	-11.58%	-10.27%	\$52,634



# Study Implications

The goal of this study was to determine whether Missouri's HPTC program was having a positive impact on the state economy. With rising state budget concerns lawmakers have been growing increasingly apprehensive about the various state economic development programs and whether they were having the desired economic effect on the state economy. Earlier state funded studies had considered statewide effects of the HPTC program and noted dramatic success. In 2001, researchers from Rutgers University had determined that the then 4 year old program had contributed about \$292 million in in-state wealth. The analysis was built on a set of multipliers and assumptions based on the state economy.<sup>7</sup> After the release of that study interest in the program grew, especially in the urban areas, leading to concerns of programmatic abuse. Critics of the program continue to charge that those benefits are isolated to the major metropolitan areas in the state and come at the expense of smaller, more rural locations. This study was designed to examine that sub-layer of effect that is associated with the HPTC program that we can now say benefits those smaller communities as well. It appears as though smaller communities that know how to use the HPTC program do so quite well and see positive economic impacts from its use.

We see a couple of primary implications as a result of this research. First, there is a need for additional education and outreach into the smaller and mid-sized communities across the state on the uses of the HPTC program uses and benefits. Given that only 37% of the counties across the state currently have at least one project there is opportunity around the state to further its use. Additionally, among those participants from smaller and mid-sized communities the common belief was that the program stimulated further economic development. Some of these smaller communities not currently using the HPTC might be concerned by an initial lack of resource capacity nearby but there are increasingly a number of development and profes-

sional services firms around the state that specialize in the preservation and redevelopment of historic properties. Second, there is both a fiscal and an environmental benefit associated with the reuse of existing buildings and this needs to be further promoted. Environmentally, reusing existing buildings and materials preserves the environment by discouraging additional new development. The tax credits help level the playing field by offering the equity incentive. The fiscal benefit extends to state and local governments by keeping development closer to existing infrastructure and encouraging density where infrastructure can best support that type of development. Denser development allows for a more efficient delivery of government services.

Ultimately, we hope that this study has illuminated the benefits provided by the HPTC program and how it is used across the state. We intend it to serve as an opening for a broader discussion about the uses of such development incentives. May it serve its purpose.



<sup>7</sup>*Economic Impacts of Historic Preservation in Missouri.* Center for Urban Policy Research at Rutgers University. December 2001.



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# Appendix A

## Our Model

To begin estimating the impact of the HPTC we created a model of employment growth by ZIP code between 2000 and 2007 for all of Missouri and Illinois. Our date range is 2000 through 2007 because 2007 is the most recent year for which there are County Business Patterns data available at the ZIP code and county levels. Since HPTC has been used in most major cities in Missouri, a model which looked only at Missouri would not be robust enough to make any reliable predictions. Illinois was included to ensure that the model contained enough points of comparison for areas experiencing HPTC-stimulated investment.

We chose Illinois because it is the only state bordering Missouri which has no state HPTC program. While parts of Illinois have made use of Federal historic preservation incentives, it seems to have been at lower levels than Missouri and has not been supplemented with additional state funding. We feel that Illinois contains an appropriate mix of urban and rural areas which can be compared to those in Missouri. The next section will illustrate this sentiment in more detail.

ZIP code data was used in our model for a number of reasons. First, we chose them because it is the lowest level of geography for which both the US Census Bureau's County Business Patterns and Missouri Department of Revenue data were available. The other alternative would have been to analyze counties. But there are only 218 total counties between Missouri and Illinois compared to 2,240 ZIP codes. We felt that more observations would increase the strength of our model. Secondly, counties would often be too large in terms of geography to catch the influence of a few new developments. By using ZIP codes we believe that we were able to capture more of the immediate effects of HPTC projects.

The core of our employment growth model is based on a number of common neighborhood economic change predictors, reduced to four factors in order to increase validity and predictive strength. The

variables on which these factors are based include:

- Population Change, 1990-2000
- Vacant Housing Unit Change, 1990-2000
- Percent Renters Change, 1990-2000
- Non-white Population Change, 1990-2000
- Median Household Income Change, 1990-2000
- Total Housing Units Built Before 1940, 2008
- Percent Vacant Housing Units, 2008
- Per Capita Income, 2008
- Total Population, 2008
- Total Population, 2000
- Change in Number of Jobs, 1994-2000
- Total Jobs, 1994
- Total Jobs, 2000

\*Demographic variables came from the Nielsen Claritas Pop Facts 2008 dataset. Employment data was downloaded from the US Census Bureau's County Business Patterns website.

A simple factor analysis reduced these variables into four factors. These factors were entered into our model, a simple Ordinary Least Squares regression which can be summarized as:

$$E_{2007} = J + N + P + I + C$$

Where

$E_{2007}$  = Total employment in 2007

$J$  = Factor describing jobs and job change between 1994 and 2000

$N$  = Factor describing neighborhood characteristics in 2008, including the number of residences built before 1940

$P$  = Factor describing 2008 population levels and population change 1990 to 2000

$I$  = Factor describing household and per capita income in 2008 and change 1990 to 2000

$C$  = Count of HPTC projects issued credits from 2000 through 2006

Our Count variable received a coefficient of 25.212. This is interpreted to mean that, holding all things constant, an increase of 25 jobs is associated with each additional HPTC project taking place within a ZIP code. We were more than a little surprised by

the strength of this model, which had an R Square value of .933 and Durbin-Watson value of 1.793. All independent variables are significant at the 1% level. The influence of collinearity was ruled out after conducting some diagnostics showing Variance Inflation Factors of no more than .04 over 1 for all of our independent variables.

### **Our Assumptions**

We must acknowledge that the validity of our model rests on the assumptions that have gone into our research design. First, we assume no other major interventions taking place on a large scale that might impact older neighborhoods in such unequal ways across Missouri and Illinois. Federal Historic Preservation programs; state and federal Enterprise Zones and Empowerment Zones; Tax Increment Financing districts; etc are all assumed to have equal potential of being implemented across all of Missouri and Illinois. The Missouri HPTC, however, may only be used in Missouri.

Second, we must recognize the fact that ZIP code boundaries are not static. ZIP codes are designed and drawn to be efficient mail-delivery routes, not approximations of neighborhoods. Therefore, their size and shape may dilute certain effects. And boundary changes may lead to unexpected and inaccurate changes in our data. However, these effects have an equal chance of occurring across all of Missouri and Illinois. In fact, an attempt to control for changes in ZIP code area and perimeter proved to be unnecessary, as these variables had to be thrown out of our model due to insignificance.

Finally, we assume that the most important impacts of an HPTC project will be within the immediate neighborhood. To be sure, not all construction jobs created by new HPTC projects are going to be counted within the same ZIP code. However, the offices that move into rehabbed buildings, retail establishments that open to cater to new residents and workers, and other spin-off development will be. In this sense, our findings might represent what some might feel is an under-count. But we believe that temporary work is less significant than the ability of a program such as HPTC to create sustainable jobs in entirely new markets.

### **Revenue Calculations**

We computed sales taxes at County-level to capture more spinoff. We calculate annual figures by taking 25 jobs multiplied by the number of projects each year, and in doing so, assume jobs are created in the same year as the project. Further, we assume all jobs created since 2000 still exist in each subsequent year

We also use jobs as an indicator of economic activity to estimate taxable sales associated with each project. We calculated the amount of taxable sales per job in each county in each year and then applied this figure to the total number of jobs associated with projects each year.

State tax revenue was estimated as 4.225% of taxable sales associated with each HPTC project. A cumulative sum of this revenue was calculated year-to-year on the assumption that taxable sales associated with a project in an area are comparable from one year to the next.

We computed income taxes at the ZIP code-level to capture more precision in wages as average pay by ZIP code is more likely to reflect the earnings associated with each job at this level. In doing this, we assume the same things about job creation and sustainability as above. We base income taxes generated on 6% of average annual pay over \$9,000.

# DED Economic Impact Analysis Overview

## Topics

### REMI Missouri Economic Regional Model Economic Impact Example

#### REMI Missouri Economic Model

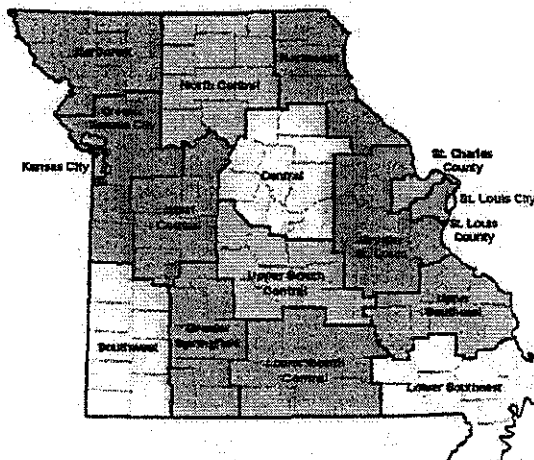
The REMI Missouri Regional Economic Model is used by the Missouri Department of Economic Development (DED) to forecast economic and policy impacts statewide and across 17 economic regions. DED uses the REMI model to assess the economic and fiscal impacts of new firms, layoffs, industrial restructuring, and tax credits.

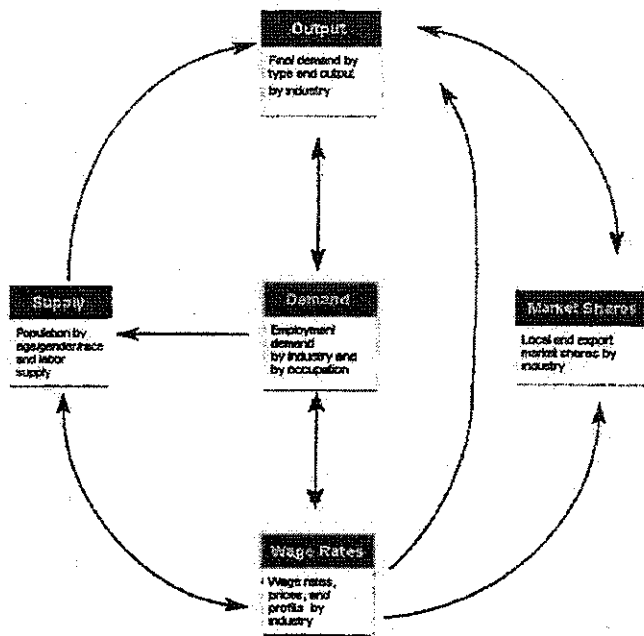
##### REMI Features:

- It is calibrated to regional conditions using a relatively large amount of area data, which improves performance, especially under conditions of structural economic change.
- It combines several analytical models (including input-output, general equilibrium, economic geography and econometric models), allowing it to take advantage of each specific method's strengths and compensate for its weaknesses.
- It allows the user to generate forecasts for any combination of future years, allowing the user special flexibility in analyzing the timing of economic impacts.
- It accounts for changes in prices, wage rates, migration patterns, labor participation, etc. that are generated from supply and demand movements.
- It is used by a large number of researchers under diverse conditions and has proven to perform acceptably.

The REMI Missouri Economic Model is utilized to forecast economic impacts at the regional and state level. REMI includes a model that has been built for Missouri's 17 economic regions, which are based on commuting and trade flows between counties. The model-building system uses hundreds of programs developed over the last two decades to build customized models for each area using data from the Bureau of Economic Analysis, the Bureau of Labor Statistics, the Department of Energy, the Census Bureau and other public sources. The model is based on past and current research and development, which is subject to peer review and published in academic journals. REMI is currently used by hundreds of governmental agencies, universities, and others. Articles about the model equations and research findings have been published in professional journals such as the *American Economic Review*, *The Review of Economic Statistics*, *the Journal of Regional Science*, and the *International Regional Science Review*.

17 Region REMI Model

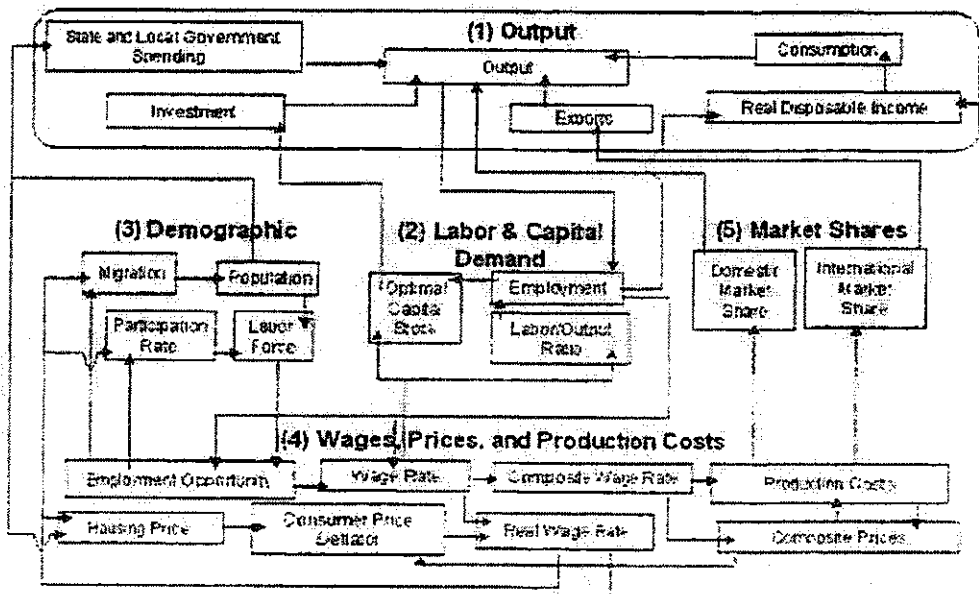




Although the model contains a large number of equations, the five block illustrations on this page describe the underlying structure of the REMI model. Each block contains several components that are shown in rectangular boxes. The lines and arrows represent the interaction of key components both within and between blocks. Most interactions flow both ways indicating a highly simultaneous structure. The *Output Block* linkages form the core of the model. An input-output structure represents the inter-industry and final demand linkages by industry. The interaction between the *Output Block* and the rest of the model is extensive.

Predicted outputs from the *Output Block* drive labor demand in the *Demand Block*. Labor demand interacts with labor supply in the *Supply Block* to determine wages in the *Wage Rates Block*.

Combined with other factor costs, wages determine relative production costs and relative profitability in the *Wage Rates Block* affecting the market shares and exports in the *Market Shares Block*. Market shares determine the amount of demand supplied locally, which feeds into the *Output Block* and again runs through the above process. Concurrently, the *Supply Block* determines population changes based on employment opportunity, which feeds back into output, wages and government spending.



## Economic Impact Example

The following economic impact example is used to illustrate how analysis is conducted and what the results mean.

**Scenario:** A new manufacturing company locates in Missouri. The firm builds the plant in 2009 and starts operations in 2010. The plant will employ 100 full-time workers.

### YEAR ONE: INVESTMENT ACTIVITY ONLY

- The firm will invest \$10 million to build the plant in 2009.
- The state offers \$1 million in tax credits.
- The firm redeems \$500,000 of the tax credits in 2009 and the remainder in 2010.

<b>ANNUAL ECONOMIC IMPACTS</b>		<b>1-YEAR</b>	
Employment		118	Initial capital investment spending creates 118 new jobs in 2009, mostly in construction. Some workers migrate into Missouri which increases the population.
Population		12	
Wage and Salary Income		\$3,906,250	Construction, utilities, professional/tech. services, and other direct investments spur additional economic activity in business sectors that supply inputs. Jobs that result from these direct and indirect activities create further spending in such sectors as retail and food services.
Total Personal Income		\$4,287,720	
Value-Added/Gross State Product		\$6,598,948	These effects multiply throughout the economy. As each round of spending occurs, a portion of money is spent on imports which leaks income out of the state and eventually halts the impact.
Total Economic Output		\$11,565,896	
<b>ANNUAL FISCAL IMPACTS</b>		<b>1-YEAR</b>	
General Revenues		\$220,963	General revenue, primarily individual income taxes followed by sales and corporate income tax, is increased by the investment impact.
General Expenditures		\$42,952	
<b>CUMULATIVE BENEFIT-COST</b>		<b>1-YEAR</b>	
Cumulative General Revenues		\$263,914	General expenditures, typically a negative impact to state government, is positive in year one because reduced payouts from social services offset smaller spending increases in education, public safety, and administration.
General Revenue Benefit Ratio		0.53	
Cumulative Total Personal Income		\$4,287,720	<i>Note: MERIC adjust over two dozen fiscal categories in REMI yearly to reflect Missouri OA budget figures.</i>
Personal Income Benefit Ratio		8.58	
Cumulative Gross State Product		\$6,598,948	
Gross State Product Benefit Ratio		13.20	
Cumulative Output		\$11,565,896	
Output Benefit Ratio		23.13	
Cumulative State Incentives (Cost Factor)		\$500,000	

### Understanding the Benefit Ratio

Benefit	=	GR	Personal Income	GSP
Cost	=	Incentive	Incentive	Incentive
Benefit	=	\$264K	\$4.29M	\$6.60M
Cost	=	\$500K	\$500K	\$500K
Benefit	=	0.53	8.58	13.20
Ratio	=			



## ADD YEARS TWO AND THREE: FIRM EMPLOYS 100 WORKERS

- The firm will employ 100 full-time workers starting in 2010. The 100 direct manufacturing jobs create an additional 133 indirect jobs in year two (total of 233) due to the purchase of inputs and spending by new workers.
- The firm redeems remaining \$500,000 (\$485,371 in current dollars) of tax credits in 2010. Future dollar values are discounted to present value for benefit/cost comparisons.

YEAR ONE – INVESTMENT		INVESTMENT ENDS	YEAR TWO ONWARD – FIRM EMPLOYS 100 WORKERS		
ANNUAL ECONOMIC IMPACTS		1-YEAR	2-YEARS	3-YEARS	
Employment		118	233	236	
Population		12	34	53	
Wage and Salary Income		\$3,906,250	\$9,553,957	\$10,045,022	
Total Personal Income		\$4,287,720	\$9,805,766	\$10,462,365	
Value-Added/Gross State Product		\$6,598,948	\$24,213,879	\$25,650,746	
Total Economic Output		\$11,565,896	\$50,982,189	\$53,465,663	
ANNUAL FISCAL IMPACTS		1-YEAR	2-YEARS	3-YEARS	
General Revenues		\$220,963	\$681,748	\$706,234	
General Expenditures		\$42,952	\$64,754	\$25,082	
CUMULATIVE BENEFIT-COST		1-YEAR	2-YEARS	3-YEARS	
Cumulative General Revenues		\$263,914	\$1,010,416	\$1,741,732	
General Revenue Benefit Ratio		0.63	1.03	1.77	
Cumulative Total Personal Income		\$4,287,720	\$14,093,486	\$24,555,851	
Personal Income Benefit Ratio		8.68	14.30	24.92	
Cumulative Gross State Product		\$6,598,948	\$30,812,826	\$56,463,572	
Gross State Product Benefit Ratio		13.20	31.27	57.30	
Cumulative Output		\$11,565,896	\$62,548,085	\$116,013,748	
Output Benefit Ratio		23.13	63.48	117.74	
Cumulative State Incentives (Cost Factor)		\$500,000	\$985,371	\$985,371	

\$500K + \$485K

### Benefit Ratio over Time

Beneficial impacts, such as net new General Revenue and Personal Income, are summed up along with the cumulative cost of incentives to develop the Benefit Ratio. All values are discounted to current dollar figures.

### Cumulative Benefit Ratio in YEAR THREE

Benefit	GR	Personal Income	GSP
Cost	Incentive	Incentive	Incentive
Benefit	\$1.74M	\$24.55M	\$56.46M
Cost	\$985K	\$985K	\$985K
Benefit Ratio	1.77	24.9	57.3

*Overview Presentation*

## **ECONOMIC IMPACT ANALYSIS**

**What is an Economic Impact Analysis (EIA)?**

**Historic Preservation Tax Credit Example**

**Issues in the Impact Analysis of Non-Business  
Development (NBD) Tax Credits**



## Overview Presentation

# ECONOMIC IMPACT ANALYSIS

The DED uses a 17-region **Regional Economic Models, Inc. Policy Insight**

**Application** (REMI) to conduct tax credit impact analyses. Some features include:

### Regional Purchasing Coefficients

Determine income leakage.

### Dynamic, multi-year impact analysis

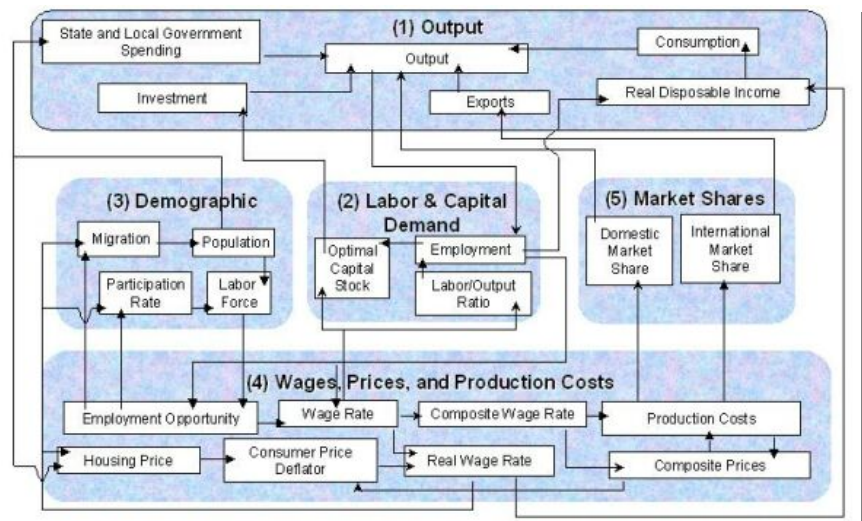
Changes in one year feed into and effect changes in following years.

### Government spending response

Population and economic migration changes. Model calibrated with annual OA figures.

### Models displacement

Retail and food services typically displace some jobs.



Source: Regional Economic Models, Inc.



## Overview Presentation

# ECONOMIC IMPACT ANALYSIS

## REMI Detailed Impact Estimates

### BASICS

Employment  
Wages  
Personal Income  
Disposable Personal Income  
Gross State Product  
Population  
Labor Force  
Sales by 66 Industry Sectors

### GENERAL REVENUE

Federal Intergovernmental  
Local Intergovernmental  
Sales Tax  
Utility Tax  
Individual Income Tax  
Corporate Income Tax  
Property Tax  
Etc.

### GENERAL EXPENDITURES

Intergovernmental  
Elementary and Secondary Ed  
Higher Education  
Social Services  
Health  
Transportation  
Police, Fire, Correction  
Etc.

**MERIC** calibrates the model each year to the Office of Administration budget numbers for revenue and expenditures.



## Overview Presentation

# ECONOMIC IMPACT ANALYSIS

## Historic Preservation Tax Credit Example

### ***Purpose of Historic Preservation tax credit:***

*Provide an incentive for the redevelopment of commercial and residential historic structures in Missouri.*

### ***Drury Plaza Hotel Project Example:***

This project was approved for a Historic Preservation tax credit in 1999. The capital improvements this tax credit supported can be modeled in REMI. This project created \$42.8 million in construction spending and equipment demand in 1999. Upon completion of the project in 2000, 87 new employees were hired, mostly in hotel and restaurant occupations, which has generated new income and spending in the state for the last ten years.

### REMI INPUTS TO ESTIMATE BENEFITS

\$42.8 M in non-residential spending input into REMI in 1999.  
87 new jobs input into REMI for 10 years after construction.

### ***Benefits of Project Activity:***

#### BENEFITS – 11 YEAR

Cumulative General Revenue:	\$2.7 M
Cumulative Personal Income:	\$75 M
Cumulative Gross State Product:	\$124 M



The Drury Plaza Hotel at Fourth and Market Streets is actually three buildings renovated into one. The 1919 Fur-Exchange building, designed by George Hellmuth, the 1950's Thomas Jefferson building, and the 1960's American Zinc building, designed by Gyo Obata, were all scheduled to be demolished, until Charles and Shirley Drury happened by as demolition was beginning, and made arrangements to purchase the three.



## Overview Presentation

# ECONOMIC IMPACT ANALYSIS

## Historic Preservation Tax Credit Example - Continued

### ***Costs of Project Activity:***

Economic activity created by the Drury Plaza Hotel approved in 1999 generated a cumulative general revenue of \$2.7 M over eleven years. The project received just over \$7.8 M in tax credits. Assuming all approved credits were redeemed in 1999, the cost to Missouri would be \$7.8 M. This cost is directly linked to the economic activity that credit supported between 1999-2009. Although the assumption that all approved credits are redeemed in the same year is unlikely, it demonstrates the highest possible cost to Missouri since later redemptions would be discounted to lower present dollar values.

### FISCAL COST – 11 YEAR

Cumulative General Revenue minus Approved Tax Credits:  $\$2.7 \text{ M} - \$7.8 \text{ M} = (\$5.1 \text{ M})$

FISCAL BENEFIT-COST RATIO =  $\$2.7 \text{ M} / \$7.8 \text{ M} = 0.35$

**\$1 Tax Credit Dollar returns 35 cents to General Revenue over 11 years.**



Renovations of the buildings resulted in the opening of the Drury Plaza Hotel in 2000. The 370-room hotel has a number of room types, including two-room suites. Many rooms have spectacular views of the Arch, Mississippi River, and Busch Stadium.





## Overview Presentation

# ECONOMIC IMPACT ANALYSIS

### Issues in the Impact Analysis of Non-Business Development (NBD) Tax Credits

The Missouri state government issues tax credits to promote various activities. Some tax credits are designed specifically to spur business development while others target goals such as historic preservation, housing, or youth programs. These broader, community-related tax credits are referred to as Non-Business Development (NBD) tax credits for the purpose of this overview.

Determining the full economic impact of many NBD tax credits is difficult since benefits to society are hard to value in dollar terms. The lack of a complete measure does not negate the need for an economic analysis but it is helpful to keep the results in context with the tax credit's goals. The review of qualitative and contextual benefits associated with a project could serve as an additional method of measure.



#### Examples of NBD Project Benefits that are Difficult to Value:

##### ***Increases in Local Tax Collections from Property, Sales, and Income***

Although the Drury Plaza Hotel adds revenue to the local tax base, determining the correct value is a complex process.

If the Fur Exchange building had been demolished in the example, the assessed value of the land would have been \$810,000. Since the renovation it has retained at least \$36 million in appraised value. Due to a thriving hotel and restaurant business the market value most likely exceeds the original \$42.8 million investment however the estimate of those property and sales tax figures would be difficult to calculate early on.

The benefit to a locality depends on modeling the impact against a particular local government's revenues and expenses (including incentives). At the local level an economic impact may show a much greater return on investment than a state impact shows.

##### ***Increases in the Attraction of Area Investment after Project Completion***

The Drury Plaza Hotel was one of the first hotels of its kind in Downtown St. Louis. Since it was established, many other projects have been completed within close proximity to the hotel. Although the hotel had a positive influence on future developments, it would be very difficult to determine the dollar value of that effect early on.

##### ***Additional hard-to-value economic benefits that a NBD tax credit may induce:***

Tourism attraction

Lower crime rates related to higher-visibility/higher-use areas



# State Tax Credits for Historic Preservation

A Public Policy Report Produced by the National Trust for Historic  
Preservation's Center for State and Local Policy

*Written by Harry K. Schwartz*

## Introduction



To date, thirty-one states in the country have adopted laws creating credits against state taxes to provide incentives for the appropriate rehabilitation of historic buildings. In most cases these tax credits take the form of the very successful federal income tax credit for historic rehabilitation contained in Section 47 of the Internal Revenue Code.

Although the tax credits vary from state to state, most programs include the following basic elements:

- Criteria establishing what buildings qualify for the credit.
- Standards to ensure that the rehabilitation preserves the historic and architectural character of the building.
- A method for calculating the value of the credit awarded, reflected as a percentage of the amount expended on that portion of the rehabilitation work that is approved as a certified rehabilitation.
- A minimum amount, or threshold, required to be invested in the rehabilitation.
- A mechanism for administering the program, generally involving the state historic preservation office and, in some cases, the state department of revenue or the state department of economic development.

## Why Do Some State Tax Credits Work Better Than Others?

Not all state tax credit programs are created equal. Some state programs have been extraordinarily productive in stimulating rehabilitation activity. Many others have produced mixed or minimal results.

What causes these programs to fall short? In general, two factors greatly influence the effectiveness of the state historic tax credits: a limit or cap on the amount of credit and a lack of transferability.

### ***Annual Aggregate Caps***

A well-thought-out and skillfully drafted tax incentive for historic preservation cannot achieve its objectives if the total amount of credits that can be awarded annually is subject to a statutory limit, particularly if the limit is fixed at a low figure. For example, Kentucky has a 20 % for commercial buildings and a 30% credit for owner-occupied residences, but only a \$3 million annual cap.

Indiana has annual aggregate caps of just \$450,000 for commercial projects and \$250,000 for residential projects. Even if the annual limit is relatively high, the very act of imposing cap alters the nature of the program and can produce a perverse result, rewarding projects that do not require an incentive while excluding projects that cannot proceed without the state incentive.

Where demand for credits exceeds the amount permitted by law, applicants either must compete for credits or participate in a lottery or other arbitrary allocation system. Projects that truly require the state credit to be financially feasible have tended to be discouraged from participating because of the lack of certainty as to the

outcome, the cost of preparing a competitive application that nonetheless may be unsuccessful, and the difficulties of keeping financing commitments in place during the evaluation process.

### ***Individual Project Capping***

Some states have sought to ease concerns about the costs of the credits to the state treasury by imposing caps on the dollar amount of credits that can be awarded to individual projects, while avoiding the pitfalls of annual aggregate caps. The effectiveness of the credits in providing incentives to developers is likely to be a function of how high the limit is set. Some states have experimented with project credits as high as \$5 million per project (e.g., Connecticut and Maine).

However, given the present state of the economy, and in particular the difficulty obtaining financing for construction projects, it is difficult to assess the effectiveness of the incentives provided by credits limited in this fashion. Clearly, however, limits as low as that allowed under Colorado law, which is presently set at \$50,000, are inadequate to provide an incentive for the rehabilitation of large commercial buildings.

### ***Transferability***

A state tax credit has value only to the extent that the credit holder has sufficient liability for state taxes that the credit can be used to offset. Although state tax rates vary, they are far lower than federal income tax rates. As a consequence, an apparently valuable state tax credit may wind up in the hands of a party unable to use it. There are several remedies to solve this problem, but many state statutes do not provide for them.

## **What Makes a State Tax Credit Good?**

A successful state tax credit program will contain the following components:

### ***Eligible Buildings***

The scope of eligible buildings should include:

1. Buildings individually listed in the National Register of Historic Places,
2. Buildings located in historic districts listed in the National Register that contribute to the historic character of the district,
3. Individual buildings that have been locally designated as landmarks, and
4. Buildings located in local historic districts that contribute to the historic character of the district.

### ***Standards for Rehabilitation***

The state should adopt the Secretary of the Interior's Standards for Rehabilitation, as interpreted by the state historic preservation officer.

### **Important Definitions**

**Carry Back** — the ability to apply current tax credits against state income taxes due in preceding years.

**Carry Forward** — the ability to apply current tax credits against taxes due in future years.

**CLG (Certified Local Government)** — a local government certified by the state historic preservation officer as having the capacity to administer historic preservation programs, including grants under the National Historic Preservation Act.

**Disproportionate Allocation** — a mechanism involving the use of pass-through entities by which a state tax credit can be allocated to a taxpayer within the state in which the project is located, while the federal tax credit for the same project is allocated to an out-of-state person or entity.

**Freely Transferable** — the ability to make an outright transfer or assignment of the tax credit to another person or entity.

**Secretary of the Interior's Standard for Rehabilitation (DOI)** — general standards adopted by the Department of the Interior governing the rehabilitation of historic buildings. Rehabilitation must be carried out in accordance with these standards to qualify for federal rehabilitation tax credits for historic buildings as well as for many state tax incentives or financing programs.

**Recapture Period** — period of time during which specified action, such as a change in ownership of the property, will trigger an obligation to pay back a ratable portion of the tax credit previously claimed.

**Sunset Date** — the date on which a statutory provision will expire.

## ***Availability for Homeowners***

The credit should be available for owner-occupied residences as well as commercial property. This is particularly important because there is no federal credit for owner-occupied residences.

## ***Appropriate Rates***

The percentage rate of the credit should be fixed at a level high enough to constitute a meaningful incentive, typically in the range of 20 percent to 30 percent of qualified rehabilitation expenditures.

Rates that are significantly lower don't provide enough incentive to make a difference in a developer's decision to undertake a historic preservation project. As a negative example, Montana provides only a 5 percent tax credit for the rehabilitation of commercial structures when the federal 20 percent credit is used.

## ***Transferability***

As mentioned earlier, there needs to be a workable mechanism to put the credit in the hands of the party that can use it. States have solved this problem in one or more ways:

1. The tax code may permit the party that earns the credit to sell it outright to a third party with adequate tax liability to use it. For example, Kansas, Kentucky, Oklahoma, and Missouri permit the taxpayer to sell or convey the tax credits in this manner.
2. The code may permit a partnership that owns the property to make a disproportionate distribution of the credit, so that a local taxpayer can acquire the state tax credit while a national corporation not doing business in the state acquires the federal tax credit. Virginia, Kansas, and Delaware, for example, allow the credit to be passed through and allocated to partners or shareholders in this way.
3. The code may allow a tax credit not fully usable in the current year to be carried back to offset taxes previously paid for prior tax years. This provision appears to be unique among the states to Missouri and West Virginia, although it is a feature of the federal program.
4. The tax credit may be refundable, so that any amount not used to offset current-year taxes is paid in cash to the holder of the credit. Since homeowners earning credits are effectively precluded from using the more complex techniques for transferring credits, the most practical solutions for them are to allow the unused credit to be either refunded or sold outright. Maryland, Ohio, Iowa, and Louisiana provide a refundable tax credit, which is of particular value to lower-income homeowners.

## ***Annual Aggregate Caps***

Although state legislatures and their fiscal analysts prefer to keep a tight grip on the award of tax credits, those states that have resisted capping have had an economic advantage in attracting capital for historic preservation.

### **The Current Fiscal Crisis**

The nationwide economic recession has produced serious adverse impacts on state budgets. Unlike the federal government, as a general rule states are required by their constitutions to produce a balanced budget each year.

On one hand, the recession has greatly reduced state revenues from taxes. To meet these gaps, state legislators and budget officers have sought ways to cut spending and reduce draws on state treasuries, including draws resulting from the awards of state tax credits. Not surprisingly, the states that are most vulnerable to attack on their historic tax credit programs are those that have had the most generous, and the most effective, tax credit laws such as Rhode Island and Missouri. The fiscal climate has also slowed efforts to enact tax credit laws in some states.

Conversely, economic data shows that historic tax credits are highly effective at creating jobs and returning tax revenues to state treasuries. So some states, like Minnesota, are enacting or expanding these job-creating programs.

In terms of timing, it generally takes between two to three years for large rehabilitation tax credit projects to be completed. Then it takes anywhere from 6 to 12 months for the certification to be completed and the tax credits to be used. The lengthy, labor-intensive rehabilitation process allows states to offer an incentive that creates jobs and produces tax revenues now, when both are needed, and pay out the state investment years later when the credits are claimed in a stronger economy.

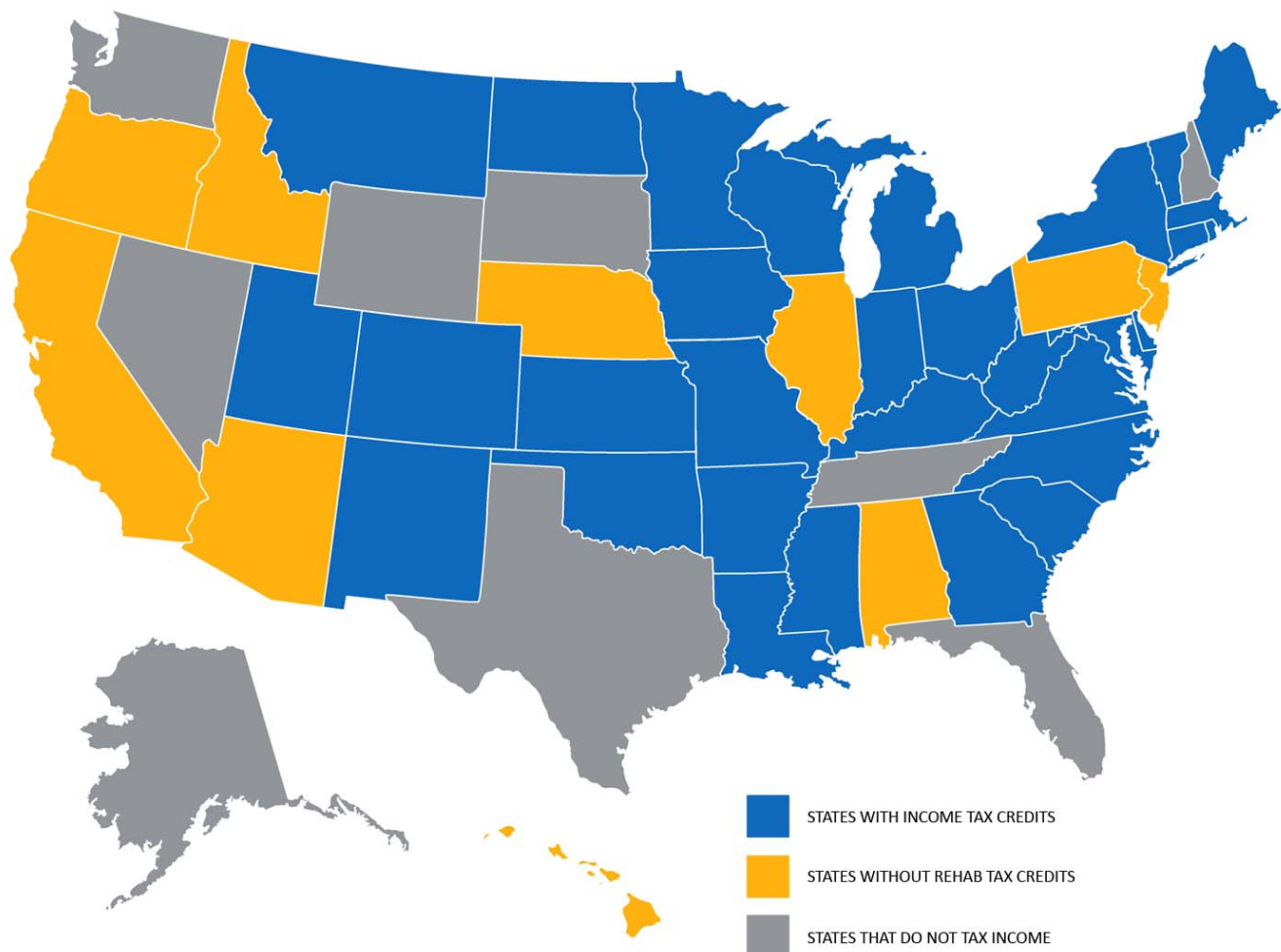
### ***Eligible Claimants***

In a number of states entities such as insurance companies, banks and public utilities are not taxed under the state corporate income tax law, but are subject to tax laws that are specific to their industries. Where this is the case, provision should be made to permit the credits to be used under these laws, so as to enable sales of tax credits to these companies.

### ***Geographic Distribution and Targeting***

In order to make sure that the benefits of the credit are felt in all parts of the state, some states have experimented with geographical set-asides for rural areas, or limits on the percentage of the credits that can be claimed for metropolitan areas. Another approach would limit the use of the credit to areas of physical deterioration and economic distress. These techniques should be evaluated with care to make sure that the limitations do not interfere with achieving the goals of the state's historic rehabilitation program.

### **State Snapshots**



Arkansas	Commencing Jan. 1, 2009, 25% credit for certified rehabilitation of eligible income and non-income producing properties. Annual program cap of \$4 million in credits; per-project caps of \$125,000 in credits for income-producing properties and \$25,000 in credits for non-income producing properties. Min. expenditures: \$25,000. Carry forward: 5 years. Freely transferable by either direct sale or disproportionate allocation among partners of a syndication partnership. Applications will be ranked in accordance with the following criteria: Creation of new business, expansion of existing business, tourism, business revitalization, and neighborhood revitalization, in that order.	Arkansas Historic Preservation Program 501-324-9880 <a href="http://www.arkansaspreservation.org/">http://www.arkansaspreservation.org/</a>
Colorado	20% credit for income-producing and homeowner properties. No aggregate statewide dollar cap, but per project cap of \$50,000 per year. Minimum investment: \$5,000. Carry forward: 10 years. DOI standards apply and work must be completed within 2 years of inception date of project. CLG can review and approve project. In the event of project budget shortfall for any year, credit is deferred to next year in which shortfall is not projected. Sunset date for credit is 2019.	Colorado Historical Society 303-866-3395 <a href="http://www.coloradohistory-oahp.org/programareas/itc/taxcredits.htm">http://www.coloradohistory-oahp.org/programareas/itc/taxcredits.htm</a>
Connecticut	Commencing Jan. 1, 2008, 25% credit for mixed residential (includes owner-occupied and rental) and nonresidential uses where at least 33% of total square footage of rehab is for residential use. 5% add-on credit for affordable housing. Cap: \$50 million over 3 years and \$5 million per project. Carry forward: 5 years. Freely transferable either by direct sale or disproportionate allocation among partners of a syndication partnership. 25% credit for rehabilitating commercial or industrial buildings for "residential use." Cap: \$2.7 million per project and \$15 million annual aggregate. Carry forward: 5 years. Freely transferable either by direct sale or disproportionate allocation among partners of a syndication partnership. Minimum expenditure: 25% of assessed building value. 30% credit for eligible rehab of owner-occupied residence, including apartments up to 4 units. Eligible properties: National and/or State Register of Historic Places, must be located in areas targeted as distressed. Cap: \$30,000/dwelling, \$3 million statewide/ year. Recapture period: 5 years. Carry forward: 4 years. Minimum expenditure: \$25,000.	Connecticut Historical Commission 860-566-3005 <a href="http://www.cultureandtourism.org/cct/taxonomy/taxonomy.asp?DLN=43543&amp;cctNav= 43543">http://www.cultureandtourism.org/cct/taxonomy/taxonomy.asp?DLN=43543&amp;cctNav= 43543</a>
Delaware	20% credit for income-producing properties and a 30% homeowner credit. A 10% bonus credit applies for both rental and owner-occupied projects that qualify as low-income housing. Carry forward: 10 years. Homeowner credit cannot exceed \$20,000. Credits are freely transferable either by direct transfer or disproportionate allocation. The credit to be claimed in annual progress-based installments with phased projects. Changes in 2005 increased the maximum amount of credits in any fiscal year to \$5 million. Program sunsets in 2010.	Delaware State Historic Preservation Office 302-739-5685 <a href="http://www.history.delaware.gov/preservation/default.shtml">http://www.history.delaware.gov/preservation/default.shtml</a>
Georgia	25% credit for certified historic properties, both owner-occupied residences and income-producing. Additional 5% credit for residence located in a HUD target area. Credit cap: \$100,000 for a owner-occupied historic home, and \$300,000 for income-producing buildings, including residential rentals. Carry forward: 10 years. Transfer permitted by disproportionate allocation, or if property is sold and no part of credit taken.	Georgia Historic Preservation Division 404-656-2840 <a href="http://www.gashpo.org">www.gashpo.org</a>
Indiana	20% of rehab costs up to \$100,000 for qualifying commercial, rental housing, barns and farm buildings. Minimum investment \$10,000. Per-project cap: \$100,000. \$450,000 annual statewide cap for commercial credits and \$250,000 for owner-occupied residences. State register properties qualify. Carry forward: 15 years. Preapproval of work required. No fees. DOI standards apply. Owner-occupied residential: 20% of rehab costs. Costs must exceed \$10,000.	Indiana Department of Natural Resources 317-232-1646 <a href="http://www.state.in.us/dnr/historic/2814.htm">http://www.state.in.us/dnr/historic/2814.htm</a>



Iowa	25% credit for eligible commercial properties, residential properties and barns. Annual cap: \$45 million –10% of credits for small projects; 30% for projects located in cultural and entertainment districts; 20% for disaster recovery projects; 20% for projects that create more than 500 permanent new jobs, and 10% for statewide projects. For commercial projects: no annual project cap. Annual project cap for owner-occupied residential and rental residential: maximum of \$100,000 in rehabilitation costs per residential unit. Fully refundable with interest or carried forward 1 year. Minimum expenditure: 50% of the assessed value of the commercial property, excluding the land and for or residential or barn property, the lesser of \$25,000 or 25% of the assessed value, excluding the land. The project shall begin before the end of the fiscal year in which the Part 2 application was approved. For projects with qualified rehabilitation costs over \$500,000, there must be 10% expenditure (verified with a CPA statement) before the end of the fiscal year in which the Part 2 was approved. The project must be completed within 36 months of the Part 2 approval. Credits in excess of min. established by Dept. of Revenue are fully transferable.	State Historical Society of Iowa Historic Preservation and Cultural and Entertainment District Tax Credit Program 515-281-4137 <a href="http://www.iowahistory.org/historic-preservation/tax-incentives-for-rehabilitation/index.html">http://www.iowahistory.org/historic-preservation/tax-incentives-for-rehabilitation/index.html</a>
Kansas	25% income tax credit for commercial and owner-occupied residential properties. 30% income tax credit for nonprofits. Annual cap of \$3.75 million in credits claimed for FY2010 and FY2011. No per-project cap. Carry forward: 10 years. \$5,000 minimum on qualified expenditures necessary. Credit freely transferable either by direct transfer or disproportionate allocation.	Kansas State Historical Society 785-272-8681 <a href="http://www.kshs.org/resource/statetax.htm">http://www.kshs.org/resource/statetax.htm</a>
Kentucky	30% income tax credit for owner-occupied residential properties. A minimum investment of \$20,000 is required, with the total credit not to exceed \$60,000. 20% income tax credit for all other properties including properties owned by entities exempt from tax under section 501(c)(3) of the Internal Revenue Code and state and local governments. Minimum investment of \$20,000 or the adjusted basis, whichever is greater, subject to \$400,000 per project cap. Credit is freely transferable. \$3 million total program cap annually.	Kentucky Heritage Council 502-564-7005 <a href="http://www.heritage.ky.gov/incentives/">http://www.heritage.ky.gov/incentives/</a>
Louisiana	25% credit for income-producing properties in “downtown development districts.” \$5 million cap per taxpayer for structures within a downtown development district. No statewide cap for commercial credits. Directly transferable. 5 year carry-forward for commercial credits. 25% rate for owner-occupied residences, adjusted down based on income. \$1 million statewide cap for owner-occupied residences. Homeowner credit must be taken in five equal annual installments and is fully refundable. Minimum investment: \$10,000 for income-producing properties; \$20,000 for owner-occupied residences.	Louisiana Department of Culture, Recreation & Tourism 225-342-8160 <a href="http://www.crt.state.la.us/hp/taxincentives.aspx">http://www.crt.state.la.us/hp/taxincentives.aspx</a>
Maine	25% credit for qualifying rehab expenses of certified historic structure. 30% credit where at least 33% of the aggregate square feet of the completed project creates new affordable housing. Affordable housing credit may be increased each tax year by 1% till reached maximum of 35% in 2013. Minimum expenditures: Same as federal tax credit. If federal credit is not claimed, min. expenditure is \$50,000 and maximum is \$250,000. Cap: \$5 million per project cap; no annual statewide cap. Credit is fully refundable. Credit must be taken in 4 equal installments with first year being year property is placed into service. Credits are freely transferable by disproportionate allocation. Sunset date for credit is 2013.	Maine Historic Preservation Commission 207-287-2132 <a href="http://www.maine.gov/mhpc/tax_incentives/index.html">http://www.maine.gov/mhpc/tax_incentives/index.html</a>

Maryland	20% credit for commercial and tax exempt entities under IRC 501(c)(3) and owner-occupied residences. Through FY 2010, annual appropriation required for commercial credit; no annual cap for owner-occupied residences. Per-project cap: Commercial – \$3 million; owner-occupied – \$50,000. Competitive award process for commercial credits. No competition for credits for owner-occupied structures. No more than 75% of funds available in any year may go to any single jurisdiction. Minimum investment: \$5,000 for homeowners and a rehab cost that exceeds the adjusted basis of the property for commercial applicants. Fully refundable.	Maryland Historical Trust 410-514-7628 <a href="http://www.marylandhistoricaltrust.net/taxcredit.html">http://www.marylandhistoricaltrust.net/taxcredit.html</a>
Massachusetts	20% credit for eligible income-producing properties. 25% credit for projects with affordable housing. \$50 million annual statewide cap. Carry forward: 5 years. DOI standards apply. Permits direct transfer of credit or transfer by disproportionate allocation. Minimum investment: 25% of adjusted basis.	Massachusetts Historical Commission 617-727-8470 <a href="http://www.sec.state.ma.us/mhc/mhctax/taxcredit.htm">http://www.sec.state.ma.us/mhc/mhctax/taxcredit.htm</a>
Michigan	25% credit for owners and long-term lessees for qualified rehabilitation of certified historic buildings against their general income tax or Michigan Business Tax, if they are not eligible for federal credit. Basic Combined credit is 5% when federal 20% credit is claimed. Enhanced state tax credit is also available --up to 15% (in addition to the Basic Combined Credit) for competitively selected projects. Cap: \$9 million for calendar year ending Dec. 31, 2009 increasing \$1 million annually to \$12 million in 2013. Twenty-five percent of the annual credit is set aside for projects that have \$1 million or less in expenditures. One Special Consideration credit, a major rehabilitation project (outside the cap) is to be allowed in 2009 and two such projects in each subsequent year. Criteria include; community impacts, benefits, and demonstrated need. Sunset 2013. Eligibility: National, state, or local designated properties. DOI standards apply. Minimum expenditures: 10% of State Equalized Value of the property. 5-year recapture period. Carry forward: 10 years. For projects with less than \$250,000 in credits, owner may elect to receive a one-time refund equal to 90% of the amount that credit. Transfer permitted by direct transfer or by disproportionate allocation.	State Historic Preservation Office 517-373-1630 <a href="http://www.michigan.gov/hpcredit">http://www.michigan.gov/hpcredit</a>
Minnesota	Credit equal to 100% of the federal credit allowed for the rehabilitation of a certified historic commercial property against taxes or grant equal to 90% of federal credit allowed. No annual program cap and no per-project cap. Credit freely transferable either by direct transfer or disproportionate allocation. Credit is fully refundable. Credit may be used by insurance companies as well as other corporations and individuals. Application must be made for the credit before the rehabilitation begins. Program starts May 1, 2010 and sunsets in Fiscal Year 2015.	State Historic Preservation Office, Minnesota Historical Society 651-259-3000 <a href="http://www.mnhs.org/shpo/grants/index.htm">http://www.mnhs.org/shpo/grants/index.htm</a>
Mississippi	25% credit for commercial property and for owner-occupied residences. Uncapped credit with minimum investment of 50% of the total basis for commercial properties; \$5,000 for owner-occupied residences. Carry forward: 10 years.	Division of Historic Preservation, Mississippi Department of Archives and History 601-576-6940 <a href="http://www.mdah.state.ms.us/hpres/prestaxcredit.html">http://www.mdah.state.ms.us/hpres/prestaxcredit.html</a>

Missouri	<p>25% credit for commercial and owner-occupied residential properties listed in National Register or listed as contributing to a federally certified historic district. Rehab work must meet DOI standards. Qualified rehabilitation expenditures must exceed 50% of total basis of the property. Carry back: 3 years. Carry forward: 10 years. Transfer permitted by direct transfer or disproportionate allocation.</p> <p>Legislative changes in 2009:</p> <p>1) After Jan. 1, 2010, \$250,000 per-project cap for owner-occupied single-family residences;</p> <p>2) Between Jan. 1 – June 30, 2010, aggregate program cap for commercial projects is \$70 million, and beginning on July 1, 2010, goes to \$140 million per fiscal year.</p> <p>3) Any project receiving preliminary approval after Jan. 1, 2010, whose eligible costs would be more than \$1.1 million, is subject to the cap. Projects with eligible costs less than \$1,100,000 are not subject to cap.</p> <p>Projects prioritized on first-come first serve basis; where applications received on same day, lottery will be held. Unfunded projects carry over into funding round. Requires rehab to start within 2 years of authorization. Credits must be issued within 12 months of completion of rehabilitation.</p>	<p>Missouri Historic Preservation Program 573-751-7858 <a href="http://www.dnr.mo.gov/shpo/TaxCrds.htm">http://www.dnr.mo.gov/shpo/TaxCrds.htm</a></p>
Montana	<p>Income-producing certified historic properties automatically receive 5% state tax credit if the property qualifies for the 20% federal credit. Carry forward: 7 years.</p>	<p>Montana State Historic Office 406-444-7715 <a href="http://www.his.state.mt.us/shpo/histarch.asp">http://www.his.state.mt.us/shpo/histarch.asp</a></p>
New Mexico	<p>50% of rehab costs for all properties listed in the State Register of Cultural Properties. Also applies to stabilization and protection of archeological sites listed in the State Register of Cultural Properties. No annual statewide cap. Per-project cap: \$25,000 outside an Arts and Cultural District; \$50,000 located within an Arts and Cultural District. DOI standards apply. Carry forward: 4 years. Pre-approval required.</p>	<p>New Mexico Historic Preservation Division 505-827-6320 <a href="http://www.nmhistoricpreservation.org/PROGRAMS/creditsloans_taxcredits.html">http://www.nmhistoricpreservation.org/PROGRAMS/creditsloans_taxcredits.html</a></p>
New York	<p>20% credit (effective Jan. 1, 2010) for certified commercial properties or qualified historic homes located in 1) a census tract with a median income at or below the State Family Median Income level, 2) a Qualified Census Tract (QCT) Section 143 (J) of the Internal Revenue Code, or 3) in a state Area of Chronic Economic Distress. Program cap: \$5 million over 5 years. Must be used in conjunction with federal credit. Credit must be taken in the year building is placed into service. Carry forward: unlimited. No aggregate cap for homeowners. Residential per project cap: \$50,000 in credits. If taxpayer's adjusted gross income is under \$60,000, credit is refundable; over \$60,000, unlimited carry forward. Minimum expenditure: \$5,000 and 5% must be spent on exterior work. Both programs sunset on Dec. 31, 2014. 25% rehab credit for historic barns. Must be income-producing, built or placed in agricultural service before 1936 and rehab cannot "materially alter the historic appearance."</p>	<p>New York State Historic Preservation Office 518-237-8643 <a href="http://nysparks.state.ny.us/shpo/investment/index.htm">http://nysparks.state.ny.us/shpo/investment/index.htm</a></p>
North Carolina	<p>30% credit for historic homeowners and 20% for income-producing properties. Minimum investment for 30% credit: \$25,000. Credit must be taken in 5 equal annual installments. Minimum investment for commercial: Same as federal credit. Cannot be used in conjunction with tax credit for rehabilitating mills. 30% or 40%, depending on location, credit for rehabilitating income-producing and non-income-producing historic mill properties. Pre-approval required. Certified property must have been at least 80% vacant for a period of two years immediately preceding date of eligibility certificate. Cannot be taken in conjunction with 20% state tax historic preservation credit for income-producing properties.</p>	<p>North Carolina Historic Preservation Office 919-733-4763 <a href="http://www.hpo.dcr.state.nc.us/tchome.htm">http://www.hpo.dcr.state.nc.us/tchome.htm</a></p>

North Dakota	25% credit for eligible historic property that is part of a renaissance zone project. Project cap of \$250,000. Carry forward: 5 years.	State Historical Society of North Dakota 701-328-2666 <a href="http://www.nd.gov/tax/genpubs/renaissance.pdf">http://www.nd.gov/tax/genpubs/renaissance.pdf</a>
Ohio	25% credit effective June 30, 2008, for owners of certified historic building. Project cap: \$5 million. Aggregate cap: a total of \$120 million with \$78 million allocated for projects from the original pilot program leaving a total of \$42 million available for new FY 2010 and 2011 projects. DOI Standards for Rehabilitation apply. Applicant must provide evidence that the credit is a major factor in the applicant's decision to rehab. Refundable amount of credit limited to \$3 million per project. Transfer by disproportionate allocation permitted. Five year carry-forward.	Ohio Historic Preservation Office 614-298-2000 <a href="http://www.ohiohistory.org/resource/histpres/yourtown/tax/">http://www.ohiohistory.org/resource/histpres/yourtown/tax/</a>
Oklahoma	20% income tax credit for all eligible commercial and rental residential properties that qualify for the federal tax credit. Minimum investment: same as federal credit. No statewide or per-project caps. Carry forward: 10 years. Freely transferable for 5 years.	Oklahoma State Historic Preservation Office 405-522-4484 <a href="http://www.okhistory.org/shpo/taxcredits.htm">http://www.okhistory.org/shpo/taxcredits.htm</a>
Rhode Island	20% credit for owner-occupied residential. Minimum investment: \$2,000. Maximum credit allowable per-project per year: \$2,000. Unused credits may be carried forward as long as property maintained. Interior work ineligible for owner-occupied residences. State register properties qualify. Program for income producing projects subject to moratorium. Credit not available for project applications submitted after December 31, 2007.	Rhode Island Historical Preservation & Heritage Commission <a href="http://www.preservation.ri.gov/credits/">http://www.preservation.ri.gov/credits/</a>
South Carolina	10% credit for commercial properties eligible for federal credit; 25% for other eligible properties. Minimum investment for non-commercial properties: \$15,000. All credits must be taken in 5 equal annual installments. No statewide or per-project dollar caps. Pass-through entities (other than "S" corporations) may transfer credit by means of disproportionate allocation. Credits for owner-occupied residences limited to one per structure each 10 years. Pre-approval required.	South Carolina Department of Archives and History 803-896-6100 <a href="http://www.state.sc.us/scdah/hpfinancialinc.htm">http://www.state.sc.us/scdah/hpfinancialinc.htm</a>
Utah	20% credit for residential owner-occupied and non-owner-occupied. Cap: none. Minimum investment: \$10,000 over 3 years. DOI standards apply. No fees.	Utah State Historical Society 801-533-3500 <a href="http://history.utah.gov/historic_buildings/financial_assistance/state_tax_credit.html">http://history.utah.gov/historic_buildings/financial_assistance/state_tax_credit.html</a>
Vermont	All credits limited to commercial buildings located in designated downtowns or village centers. 10% credit for projects approved for federal credit. 25% credit for façade improvement projects, limited to \$25,000 per project. 50% credit for certain code improvement projects, with maximum credit of \$50,000. 9-year carry-forward. Credits may be transferred to bank in exchange for cash or interest rate reduction. Annual total program cap: \$1.5 million.	Vermont Division for Historic Preservation 802-828-3211 <a href="http://www.historicvermont.org/financial/credits.html">http://www.historicvermont.org/financial/credits.html</a>
Virginia	25% for commercial and owner-occupied residential properties. Reconstruction and improvements must amount to at least 25% of the assessed value for owner-occupied buildings and at least 50% for non-owner-occupied buildings. Carry forward: 10 years. National and state register properties eligible. DOI standards apply. No caps. Transfer by disproportionate allocation permitted.	Virginia Department of Historic Resources 804-367-2323 <a href="http://www.dhr.virginia.gov/tax_credits/tax_credit.htm">http://www.dhr.virginia.gov/tax_credits/tax_credit.htm</a>

West Virginia	10% credit for buildings eligible for federal credit; 20% credit for eligible owner-occupied residences. Commercial buildings entitled to same carry-back and carry-forward provisions as are available for federal credit. Owner-occupied residences entitled to 5-year carry forward. Both commercial credits and homeowner credits may be directly transferred or transferred by disproportionate allocation. Minimum investment in homeownership projects: 20% of assessed value. No statewide or per project dollar caps.	West Virginia Historic Preservation Office 304-558-0220 <a href="http://www.wvculture.org/shpo/tcresoverview.html">http://www.wvculture.org/shpo/tcresoverview.html</a>
Wisconsin	25% credit for owner-occupied residential properties. Per-project cap: \$10,000. Minimum investment: \$10,000 over 2 years; extendable to 5 years. 5% credit for commercial properties, not subject to statewide or per-project caps. Minimum investment: expenses equal to building's adjusted basis.	State Historical Society of Wisconsin 608-264-6490 <a href="http://www.wisconsinhistory.org/hp/architecture/index.asp">http://www.wisconsinhistory.org/hp/architecture/index.asp</a>

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## About the National Trust for Historic Preservation

Harry K. Schwartz is a consultant to the National Trust for Historic Preservation on state tax incentives. For more information about state tax credits for historic preservation and a list of useful state contacts, please visit [www.PreservationNation.org/issues](http://www.PreservationNation.org/issues).

The National Trust for Historic Preservation ([www.PreservationNation.org](http://www.PreservationNation.org)) is a non-profit membership organization bringing people together to protect, enhance and enjoy the places that matter to them. By saving the places where great moments from history – and the important moments of everyday life – took place, the National Trust for Historic Preservation helps revitalize neighborhoods and communities, spark economic development and promote environmental sustainability. With headquarters in Washington, DC, eight regional and field offices, 29 historic sites, and partner organizations in 50 states, territories, and the District of Columbia, the National Trust for Historic Preservation provides leadership, education, advocacy and resources to a national network of people, organizations and local communities committed to saving places, connecting us to our history and collectively shaping the future of America's stories.

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